Austria	Sch22	Iran	[illegible]	Philippines	Pesos40
Bahrain	Din0.650	Israel	[illegible]	Portugal	Esc120
Belgium	BFr48	Italy	L1700	Qatar	Qr6.00
Canada	C$1.00	Japan	[illegible]	S.Arabia	Rls7.00
Cyprus	C£0.90	Jordan	Fils 500	Singapore	S$4.10
Denmark	DKr10.00	Kuwait	Fils 500	Spain	Pta145
Egypt	E£2.25	Lebanon	[illegible]	Sri Lanka	[illegible]
Finland	Fmk7.00	Lux	LFr48	Sweden	[illegible]
France	FFr7.00	Malaysia	[illegible]	Switz	SFr2.30
Germany	DM2.30	Mexico	[illegible]	Taiwan	[illegible]
Greece	Dr120	Morocco	Dh6.00	Thailand	[illegible]
Hong Kong	HK$12	Neth	[illegible]	Tunisia	[illegible]
Iceland	Kr125	Nigeria	[illegible]	Turkey	[illegible]
India	Rup15	Norway	NKr10.00	UAE	[illegible]
Indonesia	Rp3100	Oman	OR1	USA	$1.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

No.30,774 — Monday February 20 1989 — D 8523A

PALESTINE

People in search of a country

Page 14

World News

Najibullah to head military council in Afghanistan

Afghanistan moved towards military rule yesterday with the declaration of a state of emergency and the announcement that a military council, headed by President Najibullah, is to be formed to co-ordinate military, economic and political activities. Page 16, US aid, Page 2

S Korea protests

Thousands of South Koreans defied a ban on protests and clashed with riot police in four cities. Students and workers demanded President Roh Tae-woo's resignation and the revision of labour laws. Page 4

Cambodia talks

Vietnamese Foreign Minister Nguyen Co Thach warned that delays in settling the Cambodian conflict could stall withdrawal of his country's troops. Cambodia's warring factions opened a second round of peace talks after clashing in preliminary sessions.

Bhopal sit-in

Survivors of the 1984 Bhopal gas disaster staged an overnight sit-in outside the house of Madhya Pradesh state's chief minister and presented a statement denouncing the $470m settlement ordered by India's Supreme Court.

Boeing crash

A US Boeing 747 cargo aircraft carrying four crew members crashed into a hill near the Malaysian capital, Kuala Lumpur. One body was recovered from the wreckage.

Recruit arrest

Mr Toshihiro Ono, director of Recruit's management and planning department, was arrested on charges of violating securities laws. Page 4

Japan earthquake

A strong earthquake, measuring 5.6 on the Richter scale, struck central and northern Japan shaking tall buildings and rattling windows in downtown Tokyo. Page 16

Floods in Peru

Rescue teams have pulled 57 bodies from two rivers which burst their banks and swept away several villages in Peru's central jungle area.

Lebanon mediation

Lebanon's Moslem and Christian religious leaders arrived in Kuwait for talks with an Arab League committee on ending the 14-year-old Lebanese civil war.

Dublin ethics row

Opposition parties in the Irish Parliament are pressing for legislation to require all members to declare business interests following a row over the activities of a member of the governing party. Page 3

Sri Lanka violence

A previously unknown Sri Lankan insurgent organisation broke a short period of post-election calm by killing at least 20 Sinhalese.

Gandhi aide

Rajiv Gandhi, India's Prime Minister, appointed as one of his principal aides Mr R.K. Dhawan, a close adviser of the premier's late mother and predecessor, Mrs Indira Gandhi. Page 4

Rushdie confusion

British author Salman Rushdie remained in hiding amid confusion surrounding the death sentence pronounced on him by Iran's Ayatollah Ruhollah Khomeini for the distress caused to Moslems by his novel The Satanic Verses. Page 4

Bullring collapses

Seven people were killed and up to 200 wounded when a temporary bullring packed with spectators collapsed in the small town of Honda in Bogota.

Pope prays for rain

Pope John Paul II said he was joining all of Italy in praying for rain to end the country's worst drought in over 50 years. Water rationing is in effect in several areas and agricultural losses have been estimated at $1.5bn.

Business Summary

US regulators take over 25 insolvent thrifts

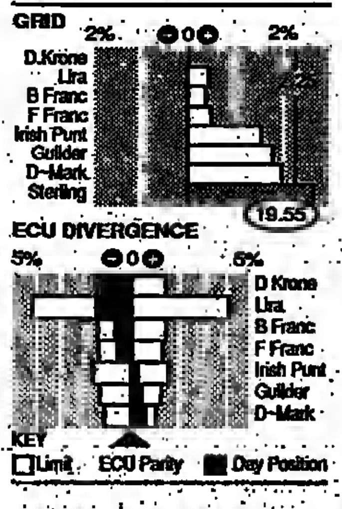
US regulators took over 25 insolvent thrift institutions and raised the possibility that the Federal Reserve Board will need to act as lender of last resort to troubled savings and loan institutions. Page 19

EUROPEAN Monetary System: The D-Mark rose against its EMS partners last week, boosted by a weaker dollar. A decision by the West German Bundesbank to leave key lending rates unchanged for the time being, and a firmer tone in US rates were shrugged aside.

Nevertheless, uncertainty remains because West German inflation continues to rise, and the authorities are likely to intervene in an attempt to control this disturbing trend.

The Danish krone was placed as the weakest currency in relation to its Ecu central rate, but was trading well within its divergence limit.

EMS February 17,1989



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move by more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself derived from a basket of European currencies.

CONFEDERATION of British Industry said that manufacturers' order books were now at their lowest level since June 1987 after weakening since the turn of the year. Official figures last week showed a steep fall in retail sales volume in January. Page 6

MR FRANCESCO Micheli, one of Italy's maverick financiers, has paid L130bn ($96.3m) to acquire nearly 40 per cent of Interbanca, an important private sector medium-term credit bank. Page 19

NATIONAL Westminster Bank will lead off the UK clearing banks' 1988 reporting season with results showing continuing losses at County NatWewst, its troubled investment banking arm. Page 6

DAI-ICHI Mutual Life Insurance, Japan's second largest life insurance company, has bought a 2 per cent stake in Compagnie Financière de Suez of France for roughly FFr 700m ($111m). Page 19

NORWAY still has a long way to go before its economy is restored to balance, according to the latest report from the Organisation for Economic Co-operation and Development. Page 3

SOUTH Korea faces retaliation under the US Omnibus Trade Act, after the breakdown of negotiations over the opening of its telecommunications market. Page 4

BOND CORPORATION International, Hong Kong offshoot of Mr Alan Bond's Australian business empire, saw pre-tax profits jump to HK$304.51m ($39m) for the half year ending December 31, a 52 per cent increase on the same period in 1987. Page 19

BRITAIN'S manufacturing companies have experienced a sharp rise in their tax burden compared with financial institutions, according to a pre-Budget report prepared by the opposition Labour Party. Page 9

BET, international services group, has strengthened its European distribution network through the acquisition of Monden, Dutch distribution group, for an undisclosed sum. Page 21

MR JACQUES CALVET, chief of French car group Peugeot, renewed his battle against the influx of Japanese carmakers in Europe. Page 4

Moscow initiative aims to break Mideast stalemate

By Tony Walker and Lamis Andoni in Amman

THE Soviet Union has launched a bold Middle East initiative aimed at breaking the stalemate in peace efforts within nine months and at re-establishing a central role for Moscow in the region.

Mr Eduard Shevardnadze, the Soviet Foreign Minister, outlined a three-point peace plan, based on UN mediation, in Damascus at the weekend.

It was also disclosed that he would meet Mr Moshe Arens, his Israeli counterpart, in Cairo on Wednesday, although there are no signs that Israel is prepared to make significant concessions.

The Soviet initiative was seen as a striking manifestation of the increased confidence with which Moscow is approaching the Middle East. The Kremlin's credibility as a mediator in the region has been boosted by its withdrawal from Afghanistan, by the recent improvement in Soviet-Israeli relations and by the Soviet role in helping to persuade the Palestine Liberation Organisation to adopt its recent moderate stance.

Mr Shevardnadze's 10-day, five-nation visit to the Middle East – the most comprehensive Soviet mission to the region in almost two decades – is shaping up as a determined diplomatic drive. Moscow's apparent single-mindedness is in sharp contrast to the caution so far displayed over the Arab-Israeli issue by the new Bush Administration in the US.

The Soviet Foreign Minister visited Jordan yesterday on the way to Egypt, Iraq and Iran before leaving for Moscow on February 27. He is expected to meet Mr Yassir Arafat, the PLO leader, in Baghdad.

Eduard Shevardnadze, Soviet Foreign Minister, at the martyrs cemetery near Damascus this weekend during his Mid-East visit

His three-stage peace proposal envisages:

●the convening of a special session of the UN Security Council at foreign minister level to establish a framework for discussion about specific moves towards peace;

●establishment of a preparatory committee representing the five permanent members of the Security Council to prepare for an international peace conference;

●involvement of Mr Javier Pérez de Cuéllar, the UN Secretary-General, in exploring ways of bringing parties to the dispute together within six to nine months.

Mr Shevardnadze said in Damascus that the permanent members of the Security Council should take the lead in finding an acceptable formula for Arab-Israeli negotiations. He indicated he would discuss his initiative when he met Mr James Baker, his US counterpart, in Vienna, on March 6.

Earlier, Mr Shevardnadze said Israel's security could not be guaranteed by "suppressing the uprising of the Palestinian people or by keeping hold of the West Bank, Gaza, Syria's Golan and southern Lebanon."

Mr Shevardnadze said the aim of his meeting with Mr Arens in Cairo would be to "try to see if there are any new elements for peace in the Middle East." Israel has reacted coolly to Soviet suggestions that the Security Council should initiate moves towards an international conference.

Mr Yitzhak Shamir, Israel's Prime Minister, is opposed to anything other than marginal UN involvement. Yesterday he countered the Soviet proposals by urging that the US and the Soviet Union sponsor a joint initiative that would bring together "all the heads of state in the Middle East, all the parties to the conflict" to begin direct negotiations.

Israel's leader remains opposed to any dealings with the PLO which he describes as a "terrorist organisation."

The Soviet initiative is likely to add to pressures on the Bush Administration to focus more quickly on efforts to bring peace to the Middle East. The US has long jealously protected its pre-eminent Middle East role.

Mideast news and analysis, Page 2; A people in search of a country, Page 14

Ministers expected to call truce in EC-US trade war

By David Buchan and Tim Dickson in Brussels

EUROPEAN Community foreign ministers are today expected to shelve plans for trade retaliation against the US, following weekend talks in Washington which produced moves to ease the transatlantic food war and signs of a wider breakthrough in US-European commercial relations.

Returning from Washington yesterday, Mr Frans Andriessen, the external affairs Commissioner, said he had found "a very positive environment for co-operation" in the US capital, to which he and Mr Raymond McSharry, the EC agriculture Commissioner had paid a 24-hour visit.

Worsening trade relations between the new administrations in Washington and Brussels led last week to a call from Mr Jacques Delors, the Commission president, for a new Euro-American "political dialogue."

The weekend agreement with Mrs Carla Hills, the US Trade Representative, and Mr Clayton Yeutter, the US Agriculture Secretary to set up a joint EC-US task force on the hormone-related trade war will make it "now easier to come to a solution," Mr Andriessen said.

This task force has been given 75 days to ease practical problems raised by the hormone ban, during which time the US is expected to scale down its sanctions to the extent that it can increase its own sales of hormone-free beef to the EC.

On January 1 this year the EC banned the import of hormone-treated meat, whose production in the EC had already been forbidden a year earlier. The US announced immediate retaliation on EC exports, though both the EC ban and US retaliation have only had practical effect since February 1 after a month's grace period for traders.

Mr Andriessen made clear that, in view of the changed climate, the Commission would not ask EC foreign ministers today to approve the counter-retaliation on US fruit and nut shipments that it drafted last month.

The US and the EC are expected to continue to challenge, in the Gatt Council in Geneva, the legality of the other's moves. But the effective freeze on further hormone-related trade hostilities until the end of April should make it easier in that month for Brussels and Washington to

Continued on Page 16

Murder unit searches home of Winnie Mandela

By Anthony Robinson in Johannesburg

POLICE removed from the Soweto home of Mrs Winnie Mandela yesterday items of bloodstained clothing, documents, sjamboks (whips) and other objects.

The eight-hour search by the Soweto murder and robbery unit and security police, together with finger print and forensic experts, was led by Brigadier Jaap Joubert.

He is the senior police officer in charge of investigations into the alleged murder of a 14 year old youth, Stompie Moeketsi, by members of Mrs Mandela's personal body guard, the Mandela United "football team".

He told reporters outside Mrs Mandela's home: "We have found fingerprints and blood samples which will be tested in our laboratory."

Last week police intercepted the mini-bus taking Mrs Mandela back home to Soweto after a meeting in Paarl prison with her husband, Nelson Mandela, jailed leader of the African National Congress (ANC).

The bus, often used by the "football team", has also been subject to forensic and finger print tests.

In a separate but related event the police announced the arrest of two people in connection with the murder last month of Dr Abubakar Asvat, a well known Soweto medical doctor.

He was shot dead in his surgery by two youths the day after he visited Mrs Mandela's home at the request of members of the Soweto Crisis Committee to examine four children abducted earlier from a Methodist mission by the team.

Mrs Mandela claims that the boys were taken from the mission to save them from sexual abuse.

The Methodist church has denied the allegation.

The two men will appear in court in Soweto today.

Mr Mandela has ordered his wife to to remove the six remaining members of her controversial football team from her house while the ANC leadership in exile has also expressed its reservations about her judgment in relation to the football club.

It claimed that the enemy had infiltrated a police spy into the team.

The ANC's criticism was noticeably more restrained than that of the internal mass democratic movement which accused her last week of abusing the peoples' trust.

Kohl to spell out options on arms

By David Marsh in Bonn

THE West German Government will spell out to Britain today its twin desire to cnt levels of short-range nuclear weapons in central Europe and to keep options open over the modernisation of US Lance missiles in the 1990s.

The delicate question of maintaining Nato's nnclear deterrence strategy in the face of West German opposition to deployment of new missiles is expected to dominate potentially difficult summit discussions in Frankfurt.

Mrs Margaret Thatcher, the British Prime Minister, will be accompanied by five ministers *for* the *first formal* Anglo-German summit since September 1986.

Before seeing Chancellor Helmut Kohl in late afternoon, she will be baving lunch at the Bundesbank with Mr Karl Otto Pöhl, the central bank president. The talks are due to end by midday tomorrow.

Mrs Thatcher is likely to stress her belief in the need for replacement in 1995 of the 120 km range Lance missiles stationed in West Germany by new missiles of about 450 km range.

The US and Britain both want Nato to give a commitment to the new weapons at the alliance's summit meeting in May. Mr Kohl is not ruling out eventually replacing Lance *but is insisting that the real* decision ou a successor does not need to be made until 1991-92.

Mr Kohl, backed hy Mr Hans-Dietrich Genscher, the Foreign Minister, is likely to tell Mrs Thatcher that Nato can delay a firm move on modernisation, and that it needs above all to start talks with the Warsaw Pact on lowering the common ceilings stocks of all missiles of under 500 km range held in central Europe.

Since Mrs Thatcher believes that the priorities should be the other way around, officials on both sides are bracing themselves for tough exchanges.

Mrs Thatcher is regarded by Bonn as more hawkish than the US on the Lance question. *This* was one of the *main top*ics discussed by Mr James Baker, the US Secretary of State, in talks in Bonn last week which, according to one US official, left "raw nerves".

The West German Chancellor, under great domestic pressure over several defence problems, has heen increasingly aggressive in defending himself from accusations abroad of having gone "soft" on allegiance to Nato.

One senior West German official said at the weekend he believed the US and Britain had "understanding" for West Germany's position on the short-range nuclear forces (SNF). The Soviet Union has considerable superiority in this weapons category, which is of *special* concern *to Bonn* because the missiles are mostly deployed in and aimed at East and West Germany.

Forlani takes over leadership of ruling Christian Democrats

By John Wyles in Rome

POWER in Italy's ruling Christian Democrat Party (DC) passed at the weekend to Mr Arnaldo Forlani in a bruising political setback *for* Mr Ciriaco De Mita, the Prime Minister.

The choice of Mr Forlani as party secretary in succession to Mr De Mita was imposed on the Prime Minister late on Friday by the party factions led by Mr Antonio Gava, the Interior Minister, and by Mr Giulio Andreotti, the Foreign Minister.

Mr De Mita was deeply opposed to the elegant 63 year old Mr Forlani and some of his reasons could be derived from the new secretary's 90-minute address yesterday to the 1,300 delegates and several thousand visitors at the DC's biennial Congress.

While stressing the importance he attached to sustaining Mr De Mita's coalition in office, Mr Forlani's analysis of what needed to be done to strengthen the DC's position as "a great, national, popular party" was a stiletto deftly wielded to wound the image of Mr De Mita's seven years as party leader.

The new secretary sought to draw blood from Mr De Mita's claims to have renovated the party, suggesting even that the barracking he was given from a section of the audience (believed to be De Mita supporters) was evidence that "rinnovamento" had not achieved its aims. He implied that under Mr De Mita, the DC's links with the Catholic Church and with the trade nnions had also heen neglected.

The style and general effectiveness of the Forlani speech will considerably tarnish the two "victories" Mr De Mita can expect from the Congress – approval of the political line he had pursued as party secretary and election in succession to Mr Forlani as president of the DC.

In his own 2 hours 20 minutes report on Saturday evening, Mr De Mita came very close to arguing that the party was making a big mistake in forcing him to step down because he was Prime Minister.

Having last April put its secretary in charge of the government – extremely rare in DC history – the party must not be seen to diminish its backing for the administration now that he was stepping down as party leader. Mr De Mita stressed that the DC's political fortunes were at stake and that the failure of his government "risked being something more than the lack of success of a group of ministers."

The open question now is whether Mr De Mita has enough anthority to push major pnblic spending cuts past his DC colleagues inside and outside of the government. Mr Franco Marini, general secretary of the Cisl union confederation, which is linked to the DC, offered little hope of a constructive union response.

CONTENTS

THE MONDAY INTERVIEW

Lynn Williams, president of the United Steel workers of America, believes there is still a vigorous labour movement in the US despite a decade in which union membership has declined

FT writers look at Eduard Shevardnadze's move to set up Arab-Israeli peace talks

US to keep low profile, says Baker

By Lionel Barber in Washington

THE US intends to take a cautious approach to the Middle East despite pressure from her European allies for a more active role, Mr James Baker, US Secretary of State, said yesterday.

On his return from a whirlwind tour of European capitals, Mr Baker ruled out an early trip to the Middle East and said he preferred a period of "quiet consultation" with the various parties.

He said: "When you go there you have to have a reasonable prospect of success. We understand the importance of US involvement if we are to have peace in the Middle East, but we are not sure that the process is best served by a high-visibility international conference begun too early."

Mr Baker's low-key response in an NBC television interview yesterday contrasted with the latest Soviet diplomatic offensive led the Foreign Minister, Mr Eduard Shevardnadze, who is touring Arab states.

The US is expected to step up its diplomatic activity when the Israeli Prime Minister, Mr Yitzhak Shamir, President Hosni Mubarak of Egypt and King Hussein of Jordan visit Washington next month.

The dates may be arranged firmly next weekend when President Bush meets Mr Mubarak and King Hussein in Tokyo, at the funeral of Emperor Hirohito. The Israeli President, Mr Chaim Herzog, will also be present.

Mr Baker will have a chance to sound out Mr Shevardnadze's views on the Middle East when the two men meet for a "get acquainted" session in Vienna on March 6 at the opening of East-West conventional arms talks.

On other issues, Mr Baker expressed confidence that the Nato alliance could resolve the problem of West German reluctance to modernise Lance short-range missiles on its soil.

Mr Baker reaffirmed Mr Bush's decision to continue supplying the Afghan rebels with US arms, despite a Soviet plea last week.

Moscow seeks to regain role in Middle East

By Tony Walker and Lamis Andoni in Amman

THE MIDDLE EAST peace initiative unveiled at the weekend by Mr Eduard Shevardnadze, the Soviet Foreign Minister, sends a clear message to both the Bush Administration and hardline Arab states, which have long relied on Soviet backing, that Moscow aims to play a new and constructive role in regional diplomacy.

The news that Mr Shevardnadze will meet Mr Moshe Arens, his Israeli counterpart, in Cairo on Wednesday – a meeting sought by the Soviet Union – was an unambiguous signal to Syria that Moscow is intent on engaging Israel at the earliest possible moment in a new drive for peace.

It was significant that Mr Shevardnadze emphasised publicly in Damascus at the weekend the need for a divided Arab world to bury its differences in advance of any genuine peace effort. The dangers of the absence of an Arab accord on broad terms for a settlement form a constant Soviet refrain.

This is a message Mr Shevardnadze is certain to have repeated strongly in his discussions with President Hafez al Assad of Syria at the weekend. Moscow is particularly concerned about dissension between Damascus and the mainstream of the Palestine Liberation Organisation led by Mr Yassir Arafat. Soviet officials have been urging a reconciliation for at least two years.

Moscow has also been trying to persuade the Syrians and the Iraqis to bury their differences in the interests of forging a broad Arab consensus on a resolution of the Arab-Israeli dispute. Both are, to an extent, Soviet allies and dependent on Soviet military support.

By reviving an earlier call to establish a preparatory committee to open the way for an international conference, Mr Shevardnadze was showing himself sensitive to the difficulties of bringing all parties to such a gathering without careful preparation.

The Soviet Union has refined its proposal by suggesting a six- to nine-month deadline for convening an international conference. The committee would be established under the auspices of the five permanent members of the Security Council and would, therefore, have "multi-partisan" backing.

Another important element of the Shevardnadze initiative is the acknowledgement he has given to the pivotal role that Egypt might play in any revitalised peace initiative. His proposed Cairo meeting with Mr Arens is significant, because of both its timing and its choice of location.

Egypt, the only Arab state to have made peace with Israel, seems uniquely placed to help narrow the gap between the PLO and the Israeli leadership. Soviet and US officials regard Egypt as one of the keys to progress towards peace.

Shevardnadze in Damascus: out to re-establish Soviet influence

Syria is unlikely to be viewing these latest developments with equanimity, and may be concerned that it will be further isolated in the region as a consequence. Damascus will not wish to see a full-blown peace process develop unless it plays a central role.

This concern may add to pressures on the Syrians to co-operate more fully in current inter-Arab mediation efforts in preparation for the first full-scale Arab League summit to be held since the Fez summit of 1982.

Jordan and Saudi Arabia are at the forefront of attempts to mediate between Syria and Iraq, and Syria and Egypt, in preparation for such a gathering, set for Riyadh this year.

In the case of the dispute between Syria and Egypt over the latter's signing of a separate peace with Israel in 1979, there have recently been signs of the beginnings of a thaw. The Syrian media are less hostile to Egypt. The Syrians have also begun to drop their objections to Egypt's return to Arab organisations.

Observers view this as a sign that Syria will not prove an obstacle to Egypt's return as a full member of the Arab League, from which it was suspended in 1979.

President Assad, in his discussions with Mr Shevardnadze, is likely to have appealed for international understanding and diplomatic assistance in helping to resolve the Lebanon problem. This remains Syria's greatest preoccupation and a drain on its resources.

Jerusalem welcomes signs of thaw by Cairo

ISRAELI officials are delighted at the prospect of this week's hurriedly arranged meetings in Cairo between Mr Moshe Arens, their Foreign Minister, President Hosni Mubarak of Egypt and Mr Eduard Shevardnadze, the Soviet Foreign Minister, writes Andrew Whitley in Jerusalem.

Israelis see in the two encounters Egyptian willingness to negotiate with Mr Yitzhak Shamir, the Prime Minister and Likud leader, who has been cold-shouldered by Cairo, and belated Soviet recognition of the US-brokered peace treaty between Israel and Egypt.

Bringing Egypt to tha fore of regional diplomacy suits Israeli strategies well. However, the possible presence in Cairo of Mr Yassir Arafat, the Palestine Liberation Organisation leader, has taken the glow off Israeli self-satisfaction.

Any attempt by President Mubarak or Mr Shevardnadze to soften Israel's resolve to have nothing to do with the PLO will be strenuously resisted by Mr Arens.

Mr Yossi Achimeir, Mr Shamir's bureau chief, yesterday declined to comment directly on the three-stage peace proposals outlined in Damascus by Mr Shevardnadze. But he reiterated the Prime Minister's opposition to an international conference involving the five permanent members of the UN Security Council.

Instead, Mr Arens will press his Soviet counterpart to go along with sponsorship by the two superpowers of direct negotiations between Israel and its Arab neighbours. Any UN role, the Israelis say, should be limited to the "technical services" of Mr Javier Pérez de Cuéllar, the Secretary-General.

At yesterday's Israeli Cabinet meeting, Mr Shamir rebuffed calls by Labour members of the coalition for a briefing on the Arens mission.

In a US television interview, Mr Arafat claimed that the Shamir government was conducting indirect negotiations with himself, through third parties, about a possible truce in southern Lebanon.

Madrid in hunt for half million tax dodgers

By Peter Bruce in Madrid

THE SPANISH tax authorities threatened at the weekend that they would hunt down nearly half a million tax dodgers, mostly businessmen and professionals, involved in an attempt to hide \$20bn (£11.2bn) of undeclared income in "safe" insurance policies in 1986 and 1987.

Mr Jaime Gaiteiro, head of the Spanish revenue service, said the authorities had raised their estimate of the money used to buy *primas unicas* – one-payment life insurance policies – by \$5bn in the past few weeks.

The search is the biggest operation ever mounted against black money by a Spanish Government. *Primas unicas* became fashionable three years ago when the Government began to force banks to reveal details of customer accounts. Most banks own insurers and persuaded frightened customers to buy the life policies where the money would not be found.

But the Government won a breakthrough recently when, under threat of arrest, the management of La Union y El Fenix, an insurer owned by Banco Español de Credito (Banesto), and four smaller banks, handed over a complete list of *primas unicas* clients. This has given tax officials the names of 16,000 people who had put Pta 120bn (£591m) into the policies.

But bigger groups, including the Banco de Bilbao-owned Euroseguros and the big Catalan savings bank, La Caixa, are refusing to hand over their lists. La Caixa, said Mr Gaiteiro, is thought to have sold *primas unicas* worth \$1bn. Mr Gaiteiro also warned insurers and banks that they would not escape investigation and prosecution if it were proved that they had been trying to help customers hide black money since the campaign to hunt down the policies began.

"We are going to pursue this until the end," said Mr Gaiteiro.

Early capitulations have sparked a sudden flood of voluntary tax declarations and a run on applications for the appropriate forms in Madrid.

Senate committee to vote on Tower's fate this week

By Lionel Barber in Washington

THE fate of Mr John Tower is expected to be resolved this week when the US Senate Armed Services Committee will vote on his nomination as Defence Secretary.

This hangs in the balance amid persistent allegations about Mr Tower's private life, concentrating on 15 months in 1985-86 as an arms reduction negotiator in Geneva.

The Texan former senator has faced further criticism for having taken more than \$750,000 in fees as a consultant for big US defence companies, after his resignation as a strategic arms negotiator.

The nomination is likely to turn mainly on the decision of Senator Sam Nunn of Georgia, committee chairman. If he votes against, most of the Democrats on the committee are expected to follow, hence a recommendation to annul the nomination in the full Senate. There, the committee's decision could be reversed; but that is judged unlikely.

Mr Nunn has said his criterion for judging Mr Tower will be whether there were a "pattern" of disturbing behaviour which would make him unfit to run the Pentagon.

Mr Kenneth Adelman, who headed the Arms Control and Disarmament Agency in the Reagan administration, has alleged that indiscretions by Mr Tower in Geneva proved "troublesome" for the State Department. However, he praised Mr Tower's negotiating skills. The main criticism has come from conservatives.

The first signs of a Republican counter-attack came yesterday when Senator Robert Dole, Republican minority leader, predicted a confirmed nomination.

US discloses details of Afghan humanitarian aid

By Christina Lamb in Islamabad

US OFFICIALS have revealed details of the humanitarian side of their supplies to the Afghan resistance, describing it as the world's largest rebel supply operation.

Mr Robert Oakley, US ambassador to Pakistan, said the cross-border humanitarian relief programme was set up four years ago. It was not secret, just quiet, he said, adding that it had been made possible by Congressional agreement to provisions which freed aid from a strict reporting procedure.

The key element of the programme, which provides a great range of material including Tennessee mules and anti-communist textbooks, is the Afghan Construction and Logistics Unit.

The operation has cost nearly \$240m (£135.6m) and was organised under the umbrella of the Supreme Council of Alliance, made up of the seven Pakistan-based resistance parties. The money passed via 17 US and European private voluntary organisations, although most went directly to the Afghan resistance alliance, Mr Oakley said.

According to an official source, as many as 90 per cent of food trucks from Peshawar and 25 per cent from Quetta went to one party, the Hezbi Islami

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Clothing faces challenge to keep out winds of change

Alice Rawsthorn examines the implications of the single European market for the textile industry

FOR MANY industries the approach of the single European market after 1992 has meant months of bickering and bartering, as they prepare for a new market which will stretch beyond traditional national boundaries.

For the European textile industry, however, at first glance 1992 should make little difference. The journey of a consignment of clothing from a factory in northern Italy to a shop in Norway will be faster and less expensive, but Europe's textile companies will not face the dramatic changes in product specification and procurement policy which will hit their counterparts in other industries.

There is, however, a hidden agenda in the approach to 1992 for textiles. The European Commission's preparations for the unified market will coincide with the expiry of the present Multi-Fibre Arrangement, which regulates the world trade in textiles, at the end of 1991.

The Commission is expected to put a Community-wide system in place of the present system of MFA quotas negotiated on a country-by-country basis. This should make the European market much more accessible to textiles from outside the Community.

Moreover, the international nature of the industry means that even what seems an inconsequential change, such as easier distribution after 1992, has implications for the balance of trade within Europe.

All in all, the European textile industry will confront a more competitive climate after

1992. The rationale of the restructuring that has reshaped the industry in the 1980s has been enablement of the industry to cope with increased international pressure.

Mr Paul Wierks, senior vice-president of Werner International, Brussels-based management consultancy, believes this pressure will be intensified after the introduction of the unified market.

The most immediate threat to the industry's *status quo* is the probable revision of the MFA. The chief concern is that the displacement of national quotas by a pan-European system would make it far easier for textiles from other countries to enter Europe.

Under the present system, if the T-shirt quotas for Denmark were full, a Taiwanese manufacturer would not be allowed to "divert" products from Greece, where the quotas were empty. The adoption of Community-wide quotas would remove in effect the restrictions on entry to Denmark.

Moreover, it would be easier for exporters to target individual European markets. Even under the present system, sudden surges of imports cause considerable damage to the European industry. It may be even more difficult to restrain these after 1992.

The most vulnerable markets would probably be the Netherlands and the UK, which have the highest concentration of retail buying power and are thus easiest to penetrate. The Dutch industry has almost disappeared but the UK industry still sells much of its output to big retail groups.

The sceptics in the European industry say the present system is so easily abused that revised quotas would make little difference. Even so, the various European trade associations are already lobbying the Commission to take a tougher stance against trade abuses, such as dumping (when goods are sold for less than the cost of production).

Another, less contentious, legacy of 1992 will be the greater ease of transporting textiles around the Community. The abolition of border controls should end delays at customs and storage costs.

A recent report* from the Boston Consulting Group estimates that the cost of moving goods around the Community should fall by 10 to 20 per cent after 1992.

Reductions in time will be much more significant to the industry than cuts in costs. In recent years the European companies have discovered that quick response can provide a critical competitive advantage over low-cost producers in south-east Asia. A consignment from Italy should reach West Germany in 36 hours, rather than four or five days, for example.

The fashion cycle has become more fragmented during the 1980s, reflecting the increased sophistication of consumer markets. These consumption trends — combined with the advances in automation that have enabled retailers to improve stock control — mean that European retailers need to deal with suppliers which can provide high-quality goods in small quantities at short notice.

So far the European industry has benefited from these trends on a national basis. The more efficient French clothing companies, for example, have been able to claim an advantage over their Italian counterparts in supplying French retailers. After 1992 this national advantage may be eroded, stimulating competition across the Community.

The greater ease of moving goods across the Community could also encourage textile companies in the economies of northern Europe, with their high labour costs, to increase their use of sub-contractors in southern countries where labour costs are lower.

In recent years the trend for companies to bring cloth or clothing from lower-cost economies has accelerated. West Germans are heavily involved in sending ready-cut cloth to be made up in eastern Europe.

The ease of access for East German clothing to Europe has caused concern among other European industries. French companies sub-contract in North Africa and UK companies in south-east Asia.

The abolition of border controls in 1992 — which will coincide with the full integration of Spain and Portugal to the Community — may mean northern European industry establishing more sources in the south.

Imports and exports of textiles and clothing from outside the EC

Year	Imports/ all textiles	Exports/ all textiles	Imports/ MFA textiles & clothing	Exports/ MFA textiles & clothing
1985	2.3m	2.0m	1.6m	1.5m
1986	2.6m	1.9m	1.9m	1.5m
1987	3.0m	2.1m	2.3m	1.6m

All figures in tonnes. Source: Eurostat

So far, the approach of 1992 has not had the same dramatic effect on European textiles as on electronics or confectionery. Yet the threat of increased competition from outside the Community, with the prospect of a change in the balance of European trade, has already galvanised the larger groups into expanding their international interests.

The most active international investors are the Italian and West German companies, which have invested steadily in automation and export marketing throughout the 1980s. Gruppo GFT and Marzotto in Italy are augmenting their international businesses, as are West German clothing companies such as Steilmann.

The UK and French groups, which have been less dynamic on the international front, have adopted a more defensive approach to 1992, as seems predictable. However, Coats Viyella, the biggest player in the UK, is experimenting with new technology and team working to meet the demands of the European market, while DMC and Chargeurs of France have been involved in a series of international acquisitions and associations.

Mr Wierks of Werner is convinced that the most powerful forces in Europe after 1992 will be those best equipped in automation and international marketing. Companies not competitive on either front will be trapped between the parallel problems of increased international competition and a less stable Community market, he says.

Given the intensity of the competitive pressures within the world textile trade, such a scenario seems inevitable, with or without a unified market in Europe. The chief consequence of 1992 is that the scenario will be realised sooner rather than later.

**1992: Implications for the EC textile and clothing industry, by Charbel Ackermann and John Lindquist; Textile Outlook International, EIU, 40 Duke Street, London W1A 1DW; £60.*

Ethics row in Dublin Parliament

By Kieran Cooke in Dublin

OPPOSITION parties in the Dail, the Irish Parliament, are pressing for legislation to require all Dail members to declare their business interests, following a row over the commercial activities of a prominent member of the governing Fianna Fail party.

Last week, Mr Liam Lawlor, MP for a Dublin constituency, resigned as head of a special parliamentary body investigating the activities of state and semi-state companies.

Opposition parties claimed that his committee activities conflicted with his outside business interests, in particular his position as a non-executive director of Food Industries, an agribusiness enterprise recently floated.

Mr Lawlor has denied that he was involved in any conflict of interest.

His committee had recently investigated the future of the state-controlled Irish Sugar Company. Food Industries has expressed an interest in buying part of the company.

Opposition Dail members are calling for investigations into allegations of unauthorised disclosure of sensitive information about the Irish Sugar Company.

Norway 'must iron out imbalances'

By Robert Taylor in Stockholm

NORWAY still has a long way to go before its economy is restored to balance, according to the latest report on the country from the Organisation for Economic Co-Operation and Development, published today.

"A country like Norway, which is depleting a sizeable natural resource [oil] at a relatively fast rate, should aim at running current account surpluses and step up its national savings ratio," the report says. "Notwithstanding the progress made so far in unwinding economic imbalances, much remains to be done."

The report points out that, while Norway has enjoyed the benefits of the recent rise in oil prices and increased oil production, the deficit in its overall current external account is still likely to be about 2 per cent of the country's gross domestic product this year.

"This means that Norway is exhausting its oil wealth at a relatively rapid rate while accumulating foreign debt. The ensuing debt-servicing burden on future generations has to be weighed against the cost in terms of lost output and increased unemployment that would accompany a significantly more rapid adjustment path."

The OECD calls on the Norwegian government to pursue with more vigour a strategy to transfer resources from the public sector to what it calls "the traditionally exposed sectors of the economy", through an improvement in profitability by means of supply-side measures to strengthen competition and efficiency, cuts in public expenditure (particularly subsidies) and a discouragement of excessive investment in the oil industry.

Much of the Norwegian report concerns the current wages outlook and the state of the labour market. It points out that, from 1980 through 1987, the country's international competitiveness, as measured by unit labour costs in common currency, deteriorated by as much as 12 per cent.

During recent years, the OECD argues, wage drift (defined as the difference between actual wage increases and increases negotiated at the central level) has accounted for more than three-quarters of the total pay rises in manufacturing.

It believes that the Government's 5 per cent statutory incomes policy for 1988, ending next month, has "been successful in moderating wage increases and helping to keep down the rate of inflation".

The report thinks that "less tight labour market conditions have improved the chances for low pay settlements" this year.

The OECD favours a much stronger centralised bargaining system for Norway, alongside government measures to ensure "pay determination "does not have to operate under excessive demand pressure".

Indeed, the report appears to think — though it does not explicitly say so — that Norway needs to have a much higher level of unemployment, as well as fiscal restraint, to keep down the level of pay demand.

The OECD notes the "substantial strengthening of Norway's traditional trade balance" since the country's economic crisis in summer 1986, and it believes that the current account deficit is likely to have narrowed to about 1.5 per cent of GDP by next year, although the terms of Norwegian trade look set to worsen because of off-shore activities.

Oslo bans hunting of seal pups for 1989

By Karen Fossli in Oslo and Robert Taylor in Stockholm

NORWAY said on Friday it had implemented a temporary ban on the hunting of seal pups for the 1989 season.

This follows a documentary film by Mr Odd Lindberg on the brutality of Norwegian seal hunting, which has caused an outcry in several western countries, incinding Britain, and has revived international concern abont Norway's treatment of seals.

The response has forced the Norwegian anthorities to appoint a panel of international experts to investigate claims of brutality by seal hunters in capturing and killing seals.

In particular, Norway's relations with Sweden have deteriorated over the past week, after Swedish television showed the film.

Last Wednesday, King Carl Gustav of Sweden criticised Mrs Gro Harlem Brundtland, Norwegian Prime Minister. Speaking from New Zealand, where he is on an official tour, the King declared: "If Mrs Brundtland cannot take a hand to deal with the seal problem, I wonder how she can deal with the Norwegian people."

He called on her to put an immediate stop to seal hunting, adding: "I am puzzled that this can still go on."

Although the widespread protests against the seal cull are considerable, the enterprise itself remains, on the face of it, very limited. The hunt involves a fleet of five vessels with 14 hunters, and 20 staff on shore. The industry is subsidised to the tune of NKr7m (£590,000). But the number of seals killed amounted to between 40,000 and 50,000 in 1988. The Norwegian anthorities estimate that there can be from 1m to 3m seals in northern waters during any year.

To counter criticism, Norway argues that the seal industry maintains the livelihood of a gronp of Norwegians living in the remote coastal area of Finnmark.

They also say the industry limits the number of seals which invade northern waters each year

The authorities say they aim to maintain the number of seals at a steady level that will not threaten the livelihood of its fishing industry.

The authorities have unsuccessfully tried to meet Mr Lindberg, to clarify the allegations of his film and to find where he obtained his information. Mr Lindberg was a seal-hunt inspector employed by the Ministry of Fisheries

However, Norway's greatest fear is that the emotional impact of the film will lead countries to ban imports of fish from Norway unless it stops killing seal pups.

Chinese conservatives 'moving to drop Zhao'

By Peter Ellingsen in Peking

SENIOR figures in the conservative faction of China's elite ruling group have mounted a concerted campaign to dump Zhao Ziyang as general secretary of the Communist Party, informed sources in Peking believe.

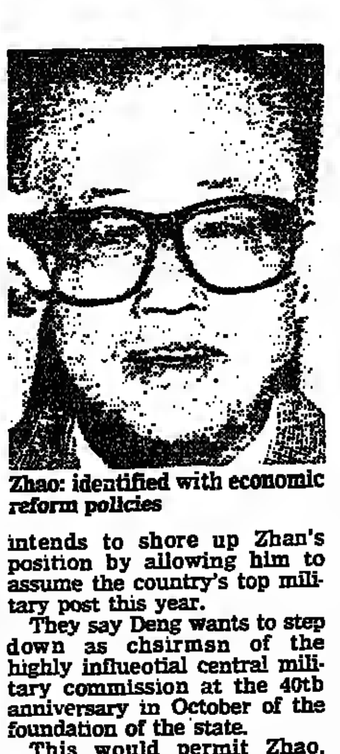
Diplomats with close links to Zhao, and well-placed Chinese sources, ssy Li Peng, Prime Minister, and Yao Yilin, Vice-Premier, have asked the paramount leader, Deng Xiaoping, to dismiss Zhao, the man most closely identified with China's recent rapid economic reforms.

Li and Yan, who are now in control of tbe economy and csutious about dismantling fixed prices and central control, blame Zhao and his progressive policies for the country's continuing high inflation.

At s recent private meeting, they urged Deog to drop Zhao in favour of Li or Qiso Shi, a member of tbe politburo's standing committee and head of security and discipline.

Deog is said to have declined to put Li in charge of both government and the party, saying: "A division of labour is preferable." He decided Qiao lacked the prestige for the top job.

Deng did oot express an opinion on Zhao's performance, hut sources believe he



Zhao: identified with economic reform policies

intends to shore up Zhan's position by allowing him to assume the country's top military post this year.

They say Deng wants to step down as chsirmsn of the highly influeotial central military commission at the 40tb anniversary in October of the foundation of the state.

This would permit Zhao, who has generally pursued policies fsvoured by Deng, to acquire that joh and with it the military backing to stave off any challenge if Deng, who wll be 85 this year, were not able to offer protection.

Zhao, now vice-chairman of the commission, is on good terms with the military, unlike his predecessor, Hu Yaobang, who was sacked several years ago, having failed to get army support in the wake of student demonstrations that were linked to reform.

Conservative calls for Zhao's dismissal first surfaced during top-level meetings last June when the libralisation of some prices and unrestrained growth prompted a 30 per cent inflation level, runs on the banks, widespread profiteering and shortages of crucial goods.

The latest pnsh to topple Zhao began in December when Chen Yun, the ageing overlord of central planning, presented Zhao with a list of eight complaints, blaming him for China's poor grain barvest and for policies which were claimed to have threatened socialism and the party.

With a meeting of the National Peoples' Congress, China's parliament, due this week to debate reform issues, and a crucial fourth session of the party's central committee ready to be convened, argument over Zhao, and the country's direction, will be intensified.

Peking hardliners warn on Hong Kong

By John Elliott in Hong Kong

HARDLINERS in China's government warned over the weekend that they helieve Peking has agreed to give too much autonomy and power to Hong Kong in a proposed mini-constitution which will govern the colony when it reverts to Chinese sovereignty in 1997.

Their remarks are out of line with official Peking policy, but they are significant because they were made during meetings of a standing committee of China's National People's Congress which was considering the second draft of the Basic Law, or mini-constitution.

The draft is expected to be approved within the next couple of days and will then be pnhlished, prohahly on Wednesday or Thursday, for a further period of consultation lasting about five months.

The draft law will be criticised by liberals in Hong Kong who were angry last night about the hardliners' remarks. They want Peking to agree to speed up the introduction of universal franchise for the election of the legislative council and chief executiva who will run what is to be called the Special Administrative Region (SAR) of Hong Kong.

The Peking hardliners' criticism of the degree of autonomy was reported over the weekend by Xn Jiatun, director of the Hong Kong office of Xinhua, China's news agency. He is China's unofficial ambassador in the colony and is thought to have little sympathy for the liberals' own hard line.

Xu said that a minority of the 135-member standing committee criticised the Basic Law draft for being too lenient. "They said Peking had already given too much power to the future SAR."

However, Xu emphasised that "most of the delegates say Peking should give a high degree of autonomy to Hong Kong. They should be given more powers."

In Hong Kong yesterday, these remarks were not thought to indicate any pending change in Peking's policy. Instead, it is thought that Xu wanted to warn liberals in Hong Kong, who are refusing to compromise on the Basic Law, that there are also hardliners in Peking who might gain a wider hearing if the liberals step up recent unruly demonstrations and cause unrest in the colony.

Seoul faces US trade retaliation

By Maggie Ford in Seoul

SOUTH Korea faces retaliation under the US Omnibus Trade Act, after the breakdown of four days of negotiations over the opening of its telecommunications market.

The two sides reached agreement on most of the US demands over opening the market for equipment supplies to South Korea, but officials in Washington failed to agree on the provision of services.

The US had demanded that South Korea reduce tariffs on equipment imports, cease imposition of non-tariff barriers such as certification regulations, and lift foreign investment regulations in telecommunications.

However, the negotiations seem to have broken down over disagreements about the supply of value-added data networks, both in South Korea and abroad, and over the definition of monopolistic practices.

This area, which affects products such as electronic mailboxes and the financial information services supplied by Reuter and Telerate, is strictly controlled in South Korea by several state-owned corporations.

South Korean officials argued that the US, in effect, was requiring South Korea to privatise its telecommunications industry, which it was unable to do.

The two sides also failed to agree on the timing for opening the market, although they did agree on the year, 1991. The question of allowing competitive international bidding for Government contracts was not settled.

The US Trade Representative will submit a report on the failed negotiations to Congress on February 23, after which South Korea is expected to be named a priority unfair trading nation.

Radical workers and students yesterday demonstrated against the government of President Roh Tae-woo, which they said was suppressing the labour movement, AP reports from Seoul.

There were no reports of injuries, but witnesses said several dozen people were arrested in the protests in Seoul and the provincial city of Taegu.

In the latter, President Roh's home town and 180 miles south-east of Seoul, about a dozen radicals hurled firebombs and set fire to a government labour office, state television KBS said.

In Seoul, for the second day in a row, about 12,000 riot police sealed off a downtown park and dispersed people trying to gather for an anti-government rally, which was moved to nearby Sungkyunkwan University.

The nation's largest dissident group, the United National Democratic Movement, called for a 10-day wave of anti-government, anti-US protests. That began on Saturday and will climax with President George Bush's visit to Seoul.

Rushdie apology confuses Iran

IRAN'S divided leaders were thrown into confusion at the weekend by an apology from Mr Salman Rushdie, the British writer, for the distress caused to Moslems by his recent novel, The Satanic Verses, Victor Mallet reports.

Mr Rushdie, in hiding after his execution was ordered hy Ayatollah Khomeini last week, issued a statement apologising for the impact of the book hnt retracting nothing he wrote.

Mr Rnshdie's apology followed an announcement hy President Ali Khamenei of Iran that Mr Rushdie might be pardoned if he admitted he had made a mistake.

The official Iranian news agency IRNA said the apology, issued on Saturday, did not go far enough. Then it carried a report saying the statement was sufficient "to warrant his pardon by the masses in Iran and elsewhere in the world". Later still, IRNA retracted the second report.

Tbe confused response underlines the power struggles in Tehran between radicals and moderates. Iranian pragmatists are likely to be concerned by the diplomatic repercussions of the Rushdie affair. Britain has suspended plans to upgrade its relations with Iran, and West Germany has protested strongly to the Iranians.

Mr Nick Browne, British chargé d'affaires in Tehran, has been told by the Iranian Foreign Ministry that Mr Rushdie's apology is a positive development, and that Mr Roger Cooper, a Briton jailed in Iran without trial for more than three years, has not in fact been sentenced.

Another Recruit executive arrested

By Ian Rodger in Tokyo

ANOTHER senior executive of the Recruit group, the sixth to date, was arrested on Saturday, charged with violations of securities laws.

Mr Toshihiro Ono, director of Recruit's management and planning department, is suspected of involvement in the distribution of pre-flotation shares of Recruit Cosmos, Recruit's real estate subsidiary, to leading politicians, bureaucrats and businessmen in the autumn of 1986.

The Tokyo public prosecutor's office claims that these alleged distributions, in connection with which two other Recruit executives were taken into custody on Wednesday, violated provisions of the securities and exchange law that requires such distributions be reported to the Finance Ministry.

Mr Ono, who has been referred to informally as the director of Recruit's political department, is also suspected of having been involved in the bungled attempt by a Recruit Cosmos official last August to bribe an opposition MP.

The scandal erupted last June when details began to emerge of a huge programme of financial and other gifts made by Recruit to politicians, businessmen and government officials so as to advance the interests of the group. Mr Ono is the the ninth to be arrested since the scandal began.

Quest for votes in Klondike territory

David Owen reports from Whitehorse on electioneering in sub-zero Yukon

MR Charlie Gauthier voted in advance of today's Yukon election. He had little choice. Election day finds him bound for Fairbanks, Alaska, for a gruelling 1,000-mile dogsled race known as the Yukon Quest.

This clash of events is one of the smaller logistical problems associated with the exercise of democracy in this frigid and remote Canadian territory where the caribou population outnumbers humans four to one.

More difficult has been establishing contact with the 15,102 registered voters scattered in one city, three towns, four villages, a hamlet and 10 "unincorporated communities" in an area somewhat larger than France.

More difficult still has been campaigning in some of the most rugged terrain and unremitting weather conditions on the planet.

Two weeks ago, temperatures dropped as low as -50C – a level at which "nothing mechanical works," as one campaign co-ordinator ruefully observed. Today, the mercury in Whitehorse, the low-slung and unpretentious territorial capital, is expected to climb to a balmy -20C. Chances are the turnout will be over 75 per cent.

Time was – in 1898, at the height of the Klondike gold rush – when Yukon could boast in Dawson City the largest Canadian township west of Winnipeg. Since then, Dawson's population has dwindled from 40,000 to 896 and the main engine of the territory's heavily subsidised economy has switched from gold to base metals, principally zinc and lead.

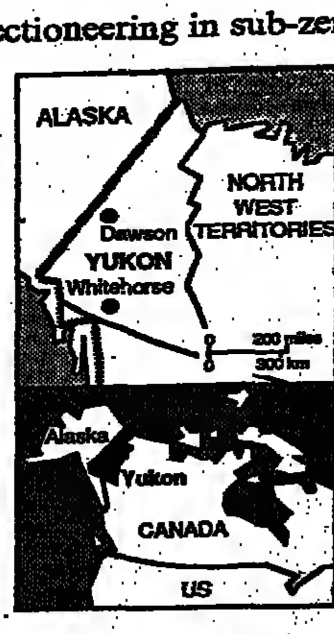
Zinc prices having recently touched record levels, economic growth has of late been exceptionally robust. Nonetheless, the territory's first ever New Democratic Party (NDP) government has devoted much effort to attempting to inculcate more diversification, with the aim of mitigating the boom-bust cyclicality to which it has traditionally been vulnerable.

The gold rush still makes some contribution to local prosperity in the shape of a lively heritage industry which – together with the lure of the wilderness – makes tourism the Yukon's second most important money-spinner.

Other common occupations include the public sector and fur-trapping. "Greenpeace is a dirty word up here," says Mr Gray Jones, a Liberal candidate.

The NDP will be defending a majority of two in the 16-seat legislature. At the last election in 1985, the party won eight seats, against six for the Conservatives and two for the Liberals. It secured a majority in February 1987 by winning a by-election called to replace a Liberal MP jailed for cocaine trafficking.

Like Canada's provincial



governments, the Yukon administration is responsible for education, tax collection, most social services, highways and community services.

The party's power-base lies in virtually unpeopled rural constituencies, where a majority of the voters are natives. Mr Tony Penikett, its portly, English-born leader, has thus accorded much prominence to a recently signed native land claims agreement in his campaign platform.

He has also pledged to promote more diversification initiatives and to continue to increase social spending.

Despite the much-improved local economy, the territory is plagued by a catalogue of chronic social ills. These include high unemployment, prevalent substance abuse among bored teenagers and an abnormally high proportion of single-parent families.

The Conservatives under Mr Willard Phelps, a lawyer, are counting on a shift to the left to recapture the centrist vote. The party, considered the Yukon's natural governing body until four years ago, has concentrated its attacks on rising levels of government spending and bureaucracy.

The Liberals under interim leader Jim McLachlan confine their ambitions to holding the balance of power in the new legislature. Mr McLachlan feels that fielding as many as 15 Liberal candidates is an achievement in itself.

Most believe that a close race is in prospect. With an average of fewer than 1,000 voters per constituency (Old Crow – the least populous – has just 150), "having two or three cousins in the area can make all the difference," according to one campaign organiser.

The election call means that bars may serve no alcohol today until polls close at 8pm. "It's like holding an election in Alberta in Stampede week (Calgary's summer festival)," complained one disgruntled cab-driver. "If the premier tried to do that, they'd hang him."

Mahgreb summit ends in 'union'

By Francis Ghilès in Algiers

THE SUMMIT of North African heads of state, held in Marrakesh last Thursday and Friday, ended with the proclamation of a "Union of the Arab Maghreb".

King Hassan of Morocco, who hosted the meeting, will preside over the Union for the first 12 months, each of the other four heads of state assuming the presidency over the following four years.

Tunisia's wish to house a permanent secretariat was not accepted by the other countries. The secretariat, which remains an administrative body, will change hands with the presidency.

A "follow-up" committee was also set up, alongside a consultative committee which will include a member of each national parliament. A judiciary committee, composed of two judges from each member state, has been given the job of arbitrating conflicts between the five members of the Union.

The reconciliation between Algeria and Morocco, sealed by the visit President Chadli Bendjedid paid to King Hassan the week before the summit, remains the cornerstone of any attempt to increase economic and political co-operation among the five countries.

However, Algerian leaders did not appreciate King Hassan's remarks, after the summit had ended, which suggested that the Algerian leaders had seen the error of their economic ways at last and decided to join Morocco and Tunisia in huilding a more liberal economic system.

King Hassan is right in believing a broadly similar economic system remains essential to co-operation, but rubbing the salt in the wound will not help his Algerian counterpart domestically when the latter is engaged in a policy of major economic and political reform.

A much more fundamental difference is that between the Libyan leader, Col Muammer Gadaffi, and his four North African peers. As they left the Marrakesh city council chamber after the signature of the treaty, Col Gadaffi and members of his entourage raised their right fists, chanting: "From Marrakesh to Bahrain".

The other four heads of state paid little heed, but must have reflected that building a union was sufficient a challenge for the time being.

Recall for Indira Gandhi aide

By K.K.Sharma in New Delhi

MR Rajiv Gandhi, India's Prime Minister, has appointed as one of his principal aides Mr R.K. Dhawan, a close adviser of the premier's late mother and predecessor, Mrs Indira Gandhi.

The appointment is one of several moves at the weekend which indicated that Mr Gandhi is turning to people whom he removed when he came to power just over four years ago.

The selection of Mr Dhawan dilutes the importance of the premier's present political aides as the ruling Congress Party is preparing for national elections to be held hy the end of the year. Mr Dhawan was dismissed as special assistant to the prime minister within weeks of Mr Gandhi taking office after his mother was assassinated.

The appointment comes as a surprise as Mr Dhawan was investigated by officials probing the assassination. He was one of the few witnesses.

Also, Mr Gandhi has displaced another close aide, Mr Gopi Arora, who was moved from the Information Ministry, where he was secretary, to the Finance Ministry.

Peugeot chief hits at Japan

THE HEAD of Peugeot has renewed his battle against the influx of Japanese carmakers to Europe, Reuter reports from Cagliari.

"Fixing the local content of a Japanese car made in Europe at 80 per cent is not enough. The level should be much closer to 100 per cent," Mr Jacques Calvet said. The European Carmakers' Association says local content should be at least 80 per cent.

Mr Calvet said Japanese carmakers who want to set up factories in Europe should not receive subsidies from the host countries. Toyota of Japan has said it is considering the construction, by 1992 in Britain, of a plant to produce 200,000 cars a year with a local content of about 60 per cent.

SHIPPING REPORT

VLCC market at loss-making levels

By Rachel Johnson

THE market for very large crude carriers (VLCC) was still operating near loss-making levels, and a limited amount of business was quoted last week, brokers said.

Excess of large tonnage in the Middle East Gulf was a contributing factor, E. A. Gibson Shipbrokers reported.

The Organisation of Petroleum-Exporting Countries (Opec) has not yet reached its output target of 18.5m barrels of crude oil a day. For this reason, brokers are using the number of oil company re-lets being fixed as the barometer for the state of the chartering market.

European and American oil companies all had surplus vessels, brokers said.

Current crude oil prices were fluctuating so the demand for tanker tonnage was much reduced. Opec's strict adherence to quotas has altered the balance of supply and demand in charterers' favour.

World Bank backs adjustment loans

Experience shows high-risk instrument is worth developing, Peter Montagnon writes

STRUCTURAL adjustment lending – or the provision of loans in return for economic reforms – has achieved a moderate degree of success in helping the economies of developing countries to improve their balances of payments, hut it has failed to lead to the desired upsurge in domestic investment, according to a study published by the World Bank today.

The bank began to make structural adjustment loans as far back as 1980, but its review constitutues the first full-scale assessment of their developmental value. The review is expected to feature at the meeting in April of the bank's Development Committee in Washington, where the role of adjustment lending will be a main item on the agenda.

Adjustment lending differs from the stabilisation policies imposed by the International Monetary Fund because it is less immediately concerned with restoring equilibrium to the balance of payments. Instead it aims to improve the medium-term growth potential by making the recipient economy more flexible and efficient in the use of scarce economic resources.

In its report, the bank describes structural adjnstment lending as a high-risk instrument, but says experience to date suggests it is worth developing further.

Some World Bank officials still admit to being more comfortable with traditional project loans hut the volume of the agency's structural adjustment lending has grown sharply over the years.

Since 1980, it has agreed \$21bn (£11.6bn) of such loans to 57 countries. In the bank's last fiscal year, adjustment lending made up 25 per cent of overall lending. It was as high as 42 per cent in loans to the heavily indebted countries of Latin America, and 33 per cent in those to the poor countries of Africa.

The study warns that it is difficult to disentangle the specific effect of structural adjustment loans from other factors, such as IMF stabilisation programmes and the degree of vulnerability to external shock.

So its conclusions have to remain tentative, but in general terms it argues that countries which borrowed under World Bank structural adjustment programmes generally performed better than those which did not, in terms of both economic growth and balance of payments. The difference in performance was particularly marked in countries which made intensive use of this mechanism.

However, it goes on to note that the results vary greatly from country to country. In general, structural adjustment programmes have been less successful in producing internal economic reform than in raising exports. They have also proved difficult to sustain.

Budget deficits hava remained high; in some countries institutional change has been slow to materialise; investment ratios have declined; nutrition levels have stagnated since 1980, especially in the low-income and sub-Saharan African groups.

"It is not possible to conclude, therefore, that (recipient) countries are growing out of debt," the study says.

Among the problems identified by the report is concern about the sustainability of programmes which can have severe adverse impact on the poorest sectors of society. Some countries, such as South Korea with its subsidised medical programmes and Chile with its targeted social expenditure, managed to alleviate this problem. Elsewhere, though, more careful targeting of public spending at a time of general fiscal restraint might be needed.

Sometimes, the objective of structural reform can conflict with immediate budgetary constraints, the study adds, citing the case of Morocco which first reduced tariffs as part of a trade liberalisation programme and was then forced to increase them again to raise additional budgetary revenue.

In general, however, compliance with the policy conditions set out in the loan agreements has been reasonably good. The study said that more than 80 per cent of conditions set out in the loans were substantially met, but those which were singled out as criteria for the release of further funds were more often met than others.

This would be an argument in favour of a selective and realistic tightening of conditions for release of separate tranches of structural loans, the study says. However, it adds that the design of programmes should reflect the circumstances of individual recipient countries.

"The programme's appropriateness for the particular country is, in the final analysis, a key determinant of sustainability. The government's commitment to the programme and popular support for its implementation are crucial."

Adjustment Lending: Ten Years of Experience; Publications Department, World Bank, Washington DC 20433; \$7.95.

WORLD ECONOMIC INDICATORS

INDUSTRIAL PRODUCTION (1985 = 100)

					% change over previous year
	Jan '89	Dec '88	Nov '88	Jan '88	
US	114.0	113.6	113.1	108.6	+5.0
	Dec '88	Nov '88	Oct '88	Dec '87	
UK	109.7	111.7	111.0	108.1	+1.5
W. Germany	108.3	107.5	106.9	103.9	+4.2
Japan	117.5	116.9	113.7	108.5	+8.3
	Nov '88	Oct '88	Sept '88	Nov '87	
France	110.6	106.6	110.0	104.8	+5.6
Netherlands	107.0	107.0	105.1	104.2	+2.7

Source: (except US) Eurostat

Drop in demand fails to halt fears of inflation

Businesses pessimistic over export prospects

By Simon Holberton, Economics Staff

FURTHER evidence that the Government's policy of high interest rates is beginning to bite came yesterday with the publication of a survey showing a continued fall in the demand for manufactured goods.

The Confederation of British Industry (CBI), the employers' federation, said that manufacturers' order books were now at their lowest level since June 1987 after weakening since the turn of the year.

Official figures last week showed a steep fall in retail sales volume in January.

Of more concern, however, the CBI's February survey of business conditions points to pessimism about the outlook for exports, and to continued upward pressure on prices.

More encouragingly, expectations for output have recovered from a sharp fall in January and are generally buoyant.

Meanwhile, it was confirmed yesterday that the Government expects inflation to rise above January's annual rate of 7.5 per cent before it begins to fall.

Officials would not be drawn on how much further inflation would rise, but London economists believe it will peak at around 8 per cent.

The CBI survey covers companies which are responsible for half Britain's exports of manufactures and which employ half the manufacturing workforce.

The survey, to which 1,469 companies responded, was conducted between January 24 and February 15.

Mr David Wigglesworth, chairman of the CBI's economic situation committee, said:

"This survey shows that higher interest rates are now affecting home demand as well as export sales . . . There is evidence of growing unease about the prospects for the remainder of this year."

He said that industry was not asking to be "feather-bedded" but it did not expect the Government to burden it with costs – such as higher interest rates and inflationary rises in electricity and water charges – which hamper efforts to be competitive in international markets.

A positive balance of 3 per cent – the difference between those expecting a rise compared to those expecting a fall – said their order books were above normal at present.

This compares with a balance of 7 per cent in January and 20 per cent a year ago.

Together with the slowing of demand for orders, manufacturers are also carrying a relatively high level of stocks of finished goods.

The survey shows that a balance of 6 per cent of companies have more than adequate levels of stocks, well above the average level of the past 18 months.

Despite the slackening in orders, expectations for output over the four months remain positive.

A balance of 26 per cent expect to boost production and the CBI expects output growth to continue at a similar rate to that observed during the last three months of 1988.

A negative balance of 7 per cent of respondents said their export order books were lower than normal.

This represents a slight improvement on the negative balance of 9 per cent in January.

Prices are also expected to keep rising, although possibly at a slower rate.

A balance of 32 per cent of manufacturers expect to increase factory gate prices in the coming four months.

Kinnock challenges Tories on environment

By Philip Stephens

MR NEIL Kinnock, the Labour leader, yesterday sought to underpin the party's recent revival in the opinion polls with a sharp attack on the Government's record in protecting the environment.

His speech came as senior party officials indicated that Labour intends to launch a sustained assault on the Government's alleged lack of "competence" in handling a wide range of issues.

Speaking in Southampton at Labour's local government conference, Mr Kinnock said that the Conservatives were guilty of inflicting "meanness, shabbiness and dirtiness" on Britain's environment.

His speech, which will be followed by an attack in the House of Commons tomorrow on ministerial handling of food hygiene, marks an attempt by Labour to capitalise on mounting public concern about the environment.

Morale among Labour MPs has been buoyed by the Conservatives' obvious discomfort over the sharp rise in inflation to 7.5 per cent, its reaction to the food poisoning scares and disquiet over the sale of the water industry.

NatWest £1.35bn in black despite losses

By David Lascelles

NATIONAL Westminster Bank will lead off the UK clearing banks' 1988 reporting season tomorrow with results that will show continuing losses at County NatWest, its troubled investment banking arm.

Generally, however, the clearers will show a strong recovery from 1987 when they made £3bn of exceptional provisions against Third World loans.

Analysts expect County to report a loss in the £50m-£70m range. About a quarter of this will be due to write downs on its 10 per cent holding in Blue Arrow, the employment services company whose unsuccessful £837m rights issue it underwrote.

The remainder of the losses will reflect tough trading conditions in the investment markets in the latter part of last year when several London houses were forced to shed staff or shut down operations because of losses.

County's deficit will follow the £116m it lost in 1987, making it by far the most costly of the clearing banks' ventures into the securities business. But County is now under new management, and Lord Boardman, NatWest chairman, is expected to stress his bank's long-term commitment to investment banking.

Overall, NatWest is expected to show a profits rise to around £1.35bn, because County's problems were more than offset by the boom conditions which prevailed in the UK credit markets for much of the year.

The next two banks to report, Midland on Thursday and Lloyds on Friday, will be back in the black after the previous year's heavy Third World-related losses, with Lloyds possibly joining the ranks of the UK's billion pound profit earners.

But although both banks will able to recoup some of their earlier bad debt charges because of the decision by Brazil to resume interest payments on its loans last year, the Bank of England has made it clear that it wants banks to preserve their provisions and increase them where possible.

Barclays Bank produces its results on March 2. Analysts are expecting a strong showing from a bank which is striving to overtake NatWest for the top league position. Profits will include about £30m from Barclays de Zoete Wedd, its investment banking arm, as it completes its first profitable year.

Generally, the banks' results will show that domestic banking was in good shape in 1988, with high loan volumes and profit margins. But bank chairmen are also likely to warn that the days of strong profit growth are over.

Apart from the dampening effect of the Government's high interest rate policy, banks must contend with increased competition from building societies and foreign banks.

Government considers plan to transfer control of grants

THE GOVERNMENT is considering transferring the control of student grants and tuition fees from local authorities to universities and polytechnics as part of its plans to overhaul the financing of higher education, writes Philip Stephens.

The move, under review in the Department of Education, would fit with the Government's desire to curb the role of local authorities and might be a step towards the eventual introduction of a voucher system for higher education.

Local authorities are currently responsible for the administration of maintenance grants paid to students and for paying their tuition fees.

The tuition fees represent only a small part of the cost of funding third level education.

The Government, however, intends to raise the proportion of funds accounted for by the fees and to reduce the size of grants.

Unions angry over move on Youth Training Scheme

THE TRADES Union Congress (TUC) is likely to be called to reconsider its support for the Youth Training Scheme, following the Government's decision to end unions' right to be consulted over proposals for training schemes at unionised workplaces, writes Charles Leadbeater.

The £1bn-a-year scheme, which has about 400,000 places for 16- to 18-year-olds, is the most established Government training programme.

The ending of unions' local role in assessing and approving YTS schemes, which follows a row over the unions' approach to the Employment Training programme for the adult unemployed and the disbandment of the tripartite Training Commission, could threaten the unions' last formal role in the Government's training programmes.

The move, disclosed in a letter from the Department of Employment's Training Agency to the managing agents contracted to run schemes locally, is likely to lead some unions to call on the TUC Congress in September to withdraw support from YTS.

“WATCH YOUR B*O*DY LANGUAGE.”

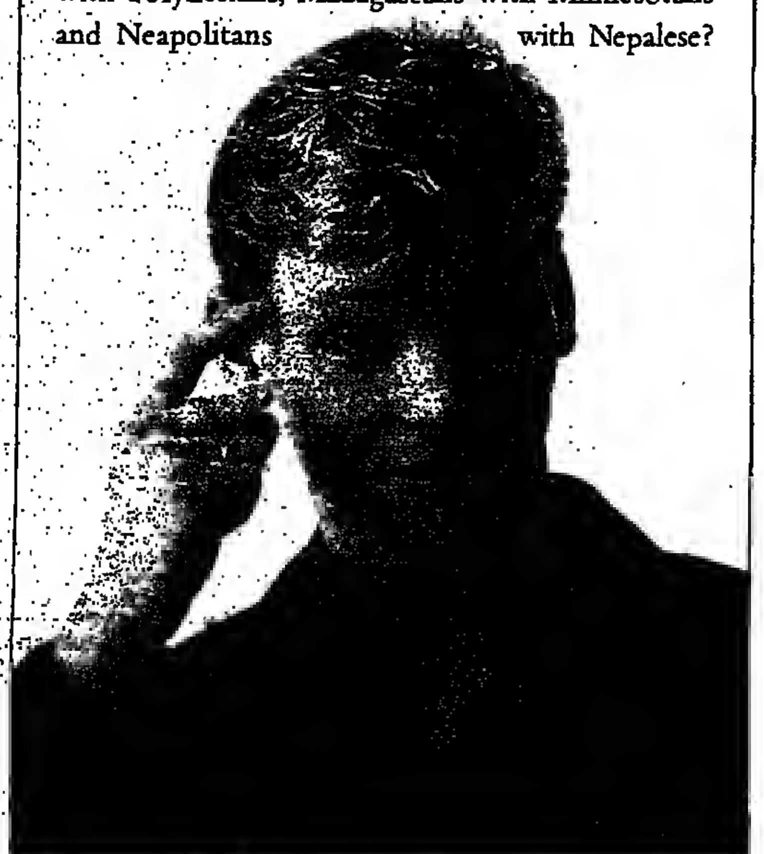
Playing host each year to 36 million people from all over the world is no easy task. Here, noted manwatcher Desmond Morris treats us to a light-hearted look at some of the deadly, but unintentional, gaffes that can so easily occur when cultures collide at Heathrow, the world's premier international airport. To find out more about the eye-pull, the ear-tug, and the celebrated Greek 'moutza,' now read on....

I'm never bored at airports. Quite the reverse. I visit them like other people go to the ballet. To a Manwatcher, there's nothing more fascinating than observing citizens of different countries mingling and exchanging body signals.

And nowhere is the performance so enjoyable as at Heathrow, the world's top international airport.

Day and night they pour in, a cast of 36 million a year from every corner of the globe.

Where else but Heathrow could you hope to see Brazilians rubbing shoulders with Brahmins, Poles with Polynesians, Madagascans with Minnesotans and Neapolitans with Nepalese?



Intelligence or stupidity? It depends whether you're Dutch.

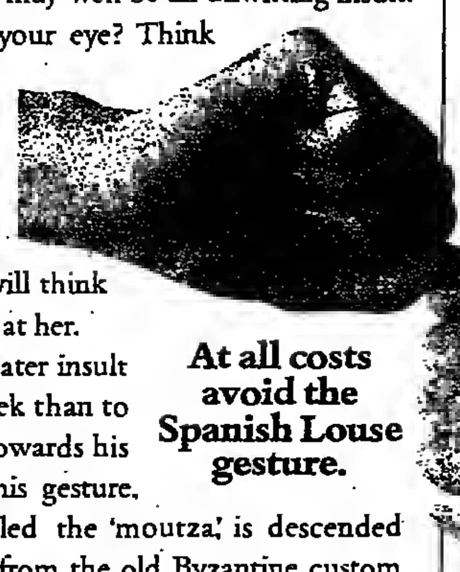
Each nationality has its own language of posture and gesture. But since these body-lingos are often mutually incomprehensible, an innocent gesture made in an airport lounge may well be an unwitting insult.

Something in your eye? Think before you touch the lower lid. If a Saudi sees you, he'll think you're calling him stupid, but a South American señorita will think you're making a pass at her.

There is no greater insult you can offer a Greek than to thrust your palms towards his face. This gesture, called the 'moutza,' is descended from the old Byzantine custom of smearing filth from the gutter in the faces of criminals as they were led in chains through the city.

So vile is this insult that in Greece even the Churchillian Victory-V is taboo, as it looks like a half-'moutza.'

Thus the Cretan or Athenian traveller, ordering two teas in a Heathrow restaurant, will carefully reverse his palm and give the waiter two fingers in the best Harvey Smith manner. With 22,600 orders for cups of tea open to misinterpretation every day, the wonder is the place functions at all.

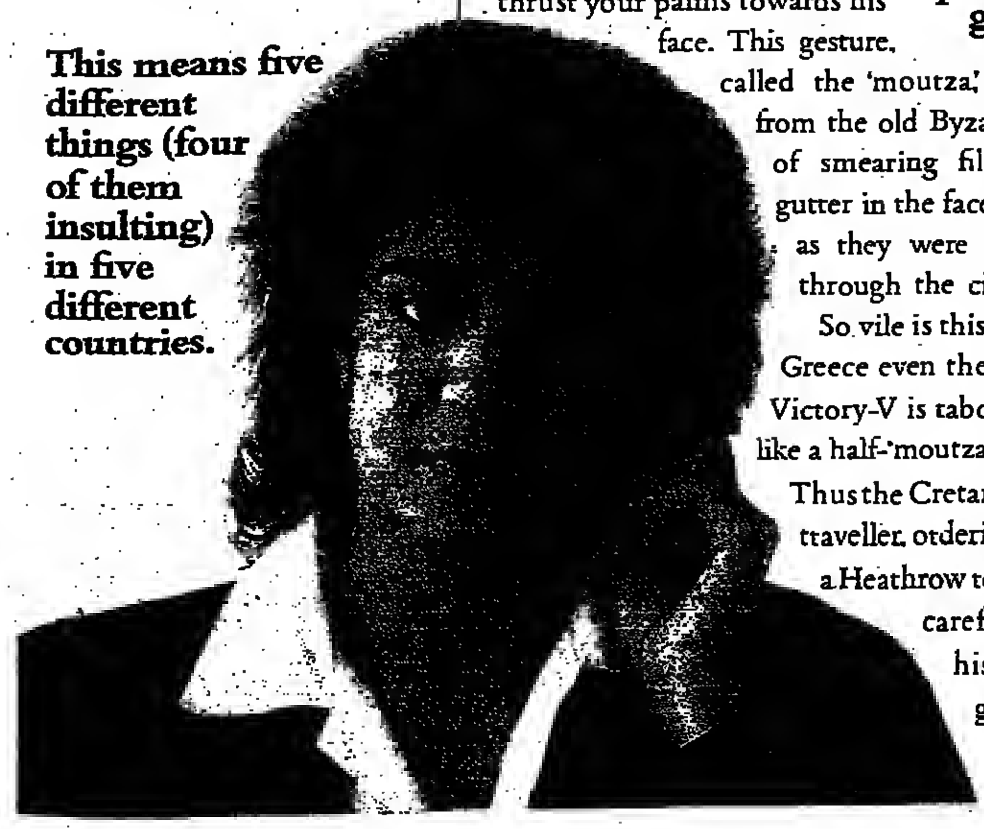


At all costs avoid the Spanish Louse gesture.

It's so easy to give offence. Suppose a passenger asks at the Information Desk where he should go to pay his airport tax.

Now the good news is that at Heathrow, unlike many airports I could name, passengers don't pay any taxes. But just as the Information Assistant begins to say so, she is assailed by a tremendous itch and tugs at her earlobe.

Astonishing though it may seem, this simple gesture means five different things in five different Mediterranean countries.



This means five different things (four of them insulting) in five different countries.

In America this means 'A-OK.'

In France it means 'zero.'

In Japan it means 'money.'

In Tunisia it means 'I'll kill you.'

Depending on his nationality, the Assistant has offered the passenger the following insult:

TO A SPANIARD: 'You rotten sponger.'

TO A GREEK: 'You'd better watch it, mate.'

TO A MALTESE: 'You're a sneaky little so-and-so.'

TO AN ITALIAN: 'Get lost you pansy.'

Only a Portuguese (to whom the gesture signifies something ineffably wonderful) would hang around long enough to hear the answer.

Happily, I can report that BAA's information staff are trained in body language.

A Sardinian woman asks if it is easy to find a taxi at Heathrow. The answer she gets is a cheery British thumbs up. (Very likely from one of the 900 cabbies who serve the airport on an average day.) Immediately, she clonks the unfortunate man with her handbag for making such a devastatingly obscene suggestion. This is why, incidentally, it's inadvisable to hitch-hike in Sardinia.

Isn't there at least one truly international gesture? Don't bet on it.

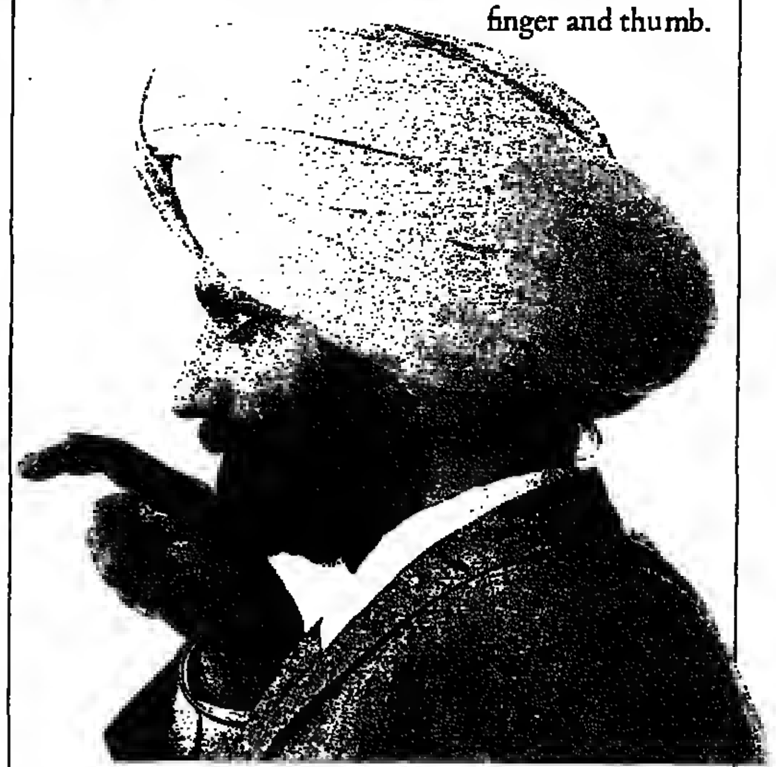
A Japanese asks an American passenger whether Heathrow has a luggage trolley service. It has. And as it happens, this service is not only first class, but FREE! So the Yank replies with the famous 'A-OK' ring gesture. But to the Japanese this signifies 'money' and he concludes there is a large charge for the service.

Meanwhile, a Tunisian on-looker thinks the American is telling the Japanese that he is a worthless rogue and he is going to kill him.

The ring-gesture can have further meanings.

A Frenchman has just read a BAA advertisement. Glancing around the restaurant in Terminal 4, he remarks wonderingly to his wife, 'You know how much zis aeroport cost the British taxpayer? Not a sou.' And he makes the finger and thumb ring which to him means 'zero.'

Unfortunately, at the time he is glancing at a Colombian who is enjoying a fine Burgundy with his steak Bearnaise. The Colombian, enraged by the deadly obscenity which he assumes is directed at him, chokes on his wine and catches at his nose with finger and thumb.

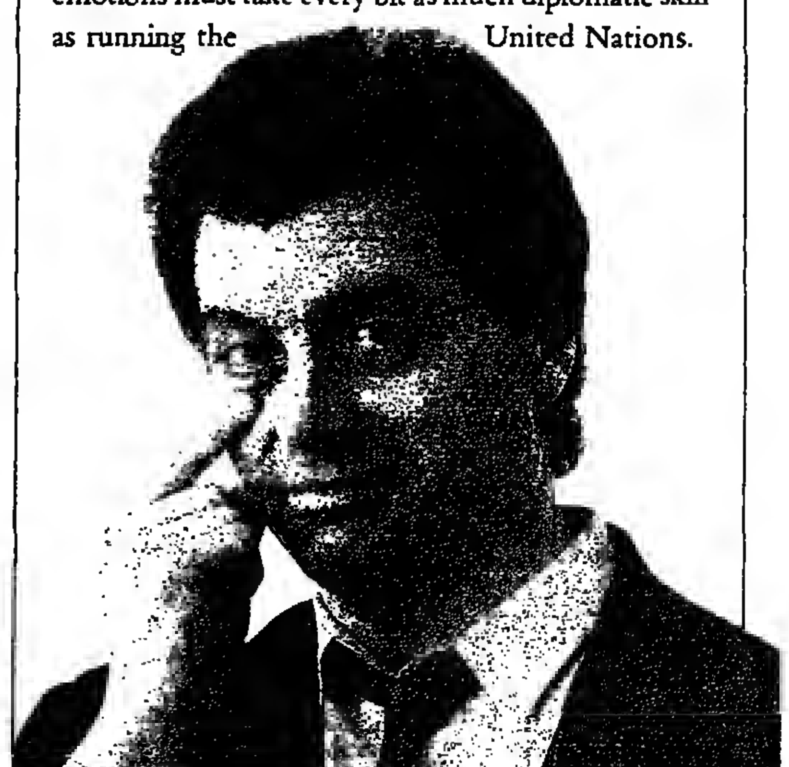


The Punjabi Snake Tongue means 'you're a liar.'

This appalls a Syrian sitting opposite, who thinks the Colombian is telling him to 'go to hell.'

The Syrian is restrained with difficulty by his Greek colleague from getting up and punching the Colombian on the nose. Meanwhile the maitre d' hurries over and attempts to calm the situation with two out-thrust palms. This of course is taken by the Greek to be a double-'moutza' and in his rage he promptly skewers the unfortunate man with his fish knife.

Of course I am exaggerating to make a point, but I do find it astonishing that Heathrow receives only 8 complaints per 100,000 passengers. Keeping the lid on this simmering rum-punch of international emotions must take every bit as much diplomatic skill as running the United Nations.



To a Saudi this is insulting. To a Florentine deeply flattering.

But even if you're never treated to such a choreography of misunderstandings, the Heathrow ballet is never dull.

Eyes peeled, next time you're there.

(And if you spot anything really unusual, like the South American Goitre Sign, or the Hawaiian Missing Bottle Waggle, do write and let me know.)

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Risk capital plan reaches a crossroads

Heather Farmbrough looks at the prospects for the Business Expansion Scheme

LAST year's Budget altered the nature of the Business Expanslon Scheme so dramatically that it would be hard for Mr Nigel Lawson, the Cbancellor, to stage a repeat performance.

This year, however, be oeeds to indicate whether there is a future for the BES's original role as a venture capital market, raising capital for risky, small companies, or whetber it sbould be purely a scheme to encourage investment in companies letting residential property as assured tenancies.

A year ago, Mr Lawson axed the scheme in its old form by introducing a maximum limit of £500,000 oo the amount that a BES company could raise in any one financial year.

Tbe exceptioos were shipping companies and, more significantly, letting property as assured tenancies, which were introduced in the 1988 Housing Act.

The inclusion of assured tenancy issues seems to have been a last-minute reprieve for the BES, whicb was introduced in 1983 as a way to raise capital for risky, small businesses, eocouraging wider share ownership in the process.

Rather than almost abolishing it in 1988, a Treasury mandarin seems to have realised that it would be a good way to promote private letting along the lines of the 1986 housing act. Consequently, BES became overnight a tool of government housing policy.

Until the 1988 Budget, the majority of new issues raised the maximum of £5m and many were coming back to shareboIders for more the following year.

Tax relief available to investors (originally designed to make investment in high-risk businesses more attractive) and big sponsors' fees earned BES the label of a tax dodge to make the ricb richer.

Tbe impact of last year's changes is evident from the difference io the sums raised under BES this year for assured and non-assured tenancies.

By the end of October 1988 – the end of the qualifying period for tax relief at 1987-88 tax rates – only £4m has been raised for non-assured tenancies while £102m had gone into assured tenancies.

Mr Steven Rowe, of BES Monitoring, expects that assured tenancy issues will raise £500m by the end of the current tax year, compared witb a total of £181m raised under BES over the 1987-88 fiscal year.

Tbe double attraction of brick-based assets and tax relief at the investor's highest rate on up to £40,000 of nsw investment a year have proved popular.

The extension of BES tax relief to assured tenancies until 1993 is a short-term measure to stimulate the supply of rented accommodation rather than a long-term solution to an acute sbortage.

If one assumes the average price of a BES dwelling is £40,000, 10,000 homes could be rented out from the proceeds of the £500m expected this year. That would be small in comparison to the 1,623,000 homes currently rented from the private sector (according to the Department of the Environment), or only 7.5 per cent of the country's housing stock.

The test for investors will come in five year's time. At that point, investors can sell their shares without losing tax relief. To realise the investment, companies can either opt for a stock market listing, sell their property portfolios on to another company, or sell the properties themselves, eitber with a tenant in possession, and thus at a discount to market value, or empty at full market value.

Assured tenancy schemes expose investors to different kinds of risks such as falling property prices and non-payment of rent, rather than the risks of failure from an untried, entreprenenrial business venture. Assured tenancies are also linked to legislation which may yet be seen not to work.

In tbe March hndget, the Cbancellor is expected to tackle the tax loophole which allows investors in a closed company tax relief on loans taken out to fund investment.

Four BES schemes are currently hoping to raise abont £100m-£200m through the closed company route. It seems unnecessarily overgenerous to give investors two sets of tax relief for BES investment.

The Cbancellor is also believed to be considering raising the maximum limit of £500,000 that non-assured companies may raise.

Given the small amount of money raised this year, it is clearly time to consider whether it is worthwhile offering BES relief at all. If it is, then the limit should be nearer £1.5m because it is uneconomic for most firms to issue and advertise a prospectus below that level.

However, observers generally believe the Chancellor is likely to raise the maximum to just £1m – a level which is perhaps neither here nor there. "It would help, but it isn't far enough," says Mr Chris Hicks, of Shire Trust.

Mr Hicks thinks an upper limit of £1.5m-£2m would help companies that expect a time lag of a year or two between raising money and making a profit.

SIB issues proposals to govern investment promotion

By Heather Farmbrough

THE Bnsiness Expansion Scheme has come under the attention of tbe Securities and Investments Board for tbe first time with the pohlication of a consultative document abont promotion of investments.

The SIB wants more consistency in an area where there is little. Its suggestions were welcomed cantiously by the BES industry.

Mr John Dodwell, of Chancery Merchant Bank, said the proposed measures could "help improve the clarity of prospectnses," where companies offer their shares directly to the public through an offer document.

Some promoters, however, are less happy with the SIB's proposal that they should not offer losns to investors to finance investment in BES companies unless they apply to the SIB for a waiver under Section 50 of the Financial Services Act.

In tbeory, any company would be ahle to apply, but the SIB is most likely to grant a waiver to close companies – those controlled by five or fewer shareholders.

ShareboIders are entitled to interest relief on loans taken out to fund share purchases in closed BES companies. That is in addition to the usual tax relief ohtainahle under the scheme.

Tbe SIB also intends to introdnce a seven-day cooling-off period after the application for investments as a result of an advertisement in a newspaper or other publication.

In addition, investors who respond to advertisements will have to complete a customer-agreement letter, while promoters may only market investments directly to clients who have already signed an agreement.

BES promoters have pointed out that under the Companies Act, which regulates prospectus issues, offers may only be open for 40 days, and that the seven-day cooling-off period might prove a practical handicap to allocating shares.

The SIB intends to put its proposals into effect on April 6, after the closing date for most of this year's issues. The proposals will, however, be too late to curb a few cases of over-zealous marketing during the past few weeks.

Lawson urged to lift tax on workplace child care

By Philip Stephens, Political Editor

MR NIGEL Lawson, the Chancellor, is under pressure from Cabinet colleagues to use his March 14 Budget to abolish the tax paid by workers on child care facilities provided by their employers.

So far, however, the Treasury has indicated that it opposes the change and it is uncertain whether it will be backed hy Mrs Margaret Thatcher, the Prime Minister.

The Home Office and the Department of Employment are thought to consider that such a move would be a useful part of the Government's strategy of encouraging mothers to return to work to ease impending labour shortages in the 1990s.


Nigel Lawson: pressure from Cabinet colleagues

Official awareness of the need to improve child care facilities has been underlined by the announcement that government departments will be allowed to subsidise such schemes.

There are already incentives for private employers to establish creches in the workplace. They include tax relief on running costs and capital allowances on the equipment used in such facilities.

As far as employees are concerned, however, the facilities are treated as a "benefit in kind". That means that unless the employee earns below £8,500 a year, they are taxed on the cost of the place at their marginal rate of income tax.

Some of Mr Lawson's colleagues argue that that provides a marked disincentive for mothers to return to work and that either there should be no tax liability for employees or the £8,500 ceiling should be raised substantially.

There are, however, objections outside the Treasury to ending the tax. In the past, Mrs Thatcher has suggested that such a change would mean that other taxpayers, including partners of parents who opt to remain at home, would effectively be subsidising those who return to work.

Against that, many MPs believe that the tax concession would be both popular and relatively cheap. It could be combined with the abolition of the earnings rule which penalises pensioners who return to work.

Goodbye to the "cornflake family", Page 13

Engineer and US designer join forces

By Andrew Taylor, Construction Correspondent

A LEADING US designer of manufacturing systems has joined forces with Sir Alexander Gibb, a British consulting engineering firm, in an effort to take advantage of increasing investment in industrial plant in Britain.

Cleaver Ketko Gorlitz Papa & Associates (CKGP) of Detroit, Michigan, specialises in providing engineering systems for the automotive industry. In the US it has produced designs for two $600m (£338m) refurbishments of Chrysler assembly plants at Newark and Belvidere and for a new $900m Cadillac assembly plant in Detroit.

Sir Alexander Gibb, which will manage the joint venture, says it will be able to offer a complete production engineering/factory design package to a wide range of British industrial and retail customers. CKGP also supplies automated warehouse storage and retrieval systems.

The joint venture is currently negotiating contracts thought to be worth about £50m in Britain. It has also identified companies in Italy and France with which Gibb-CKGT might work.

Mr Geoffrey Coates, Gibb's senior partner, said factory buildings and the engineering equipment and systems they house traditionally had been designed separately by different consultants. That could cause difficulties if design elements were not co-ordinated.

He said: "We are offering an opportunity for industry in the UK to buy a complete package of engineering expertise in all aspects of factory development."

Car manufacturers in Britain are spending heavily on expanding and improving manufacturing facilities. Japanese car companies, such as Toyota, are seeking to invest in plants in Europe, with Britain a favoured location.

The move also comes as British consulting engineers have been seeking to increase their range of skills to keep pace with new building techniques and project management requirements.

Two of Britain's biggest consulting engineers Mott Hay & Anderson and Sir M. MacDonald & Partners merged at the beginning of this year. The firms said the larger organisation would offer a wider range of technical skills capable of leading and investing in major private-sector-financed infrastructure projects.

Ove Arup, Britain's biggest consulting engineer recently announced that it had submitted a preliminary bid to British Rail to build a privately financed, high-speed rail link between London and the Channel tunnel.

Call for legal curb on jail sentencing

By Alan Pike, Social Affairs Correspondent

STATUTORY CURBS on conrts' powers to impose prison sentences are proposed in a widely backed manifesto for penal reform pnblished today.

Supporters of the manifesto want the courts' ability to send adults to prison subjected to curbs similar to those already applying to young offenders.

That would allow custodial sentences to be imposed only when necessary to protect the pnblic from serious barm; when an offender was unwilling to respond to non-custodial sentences; or when an offence was so serious that no alternative to prison could be justified.

The manifesto is backed by a variety of penal reform groups and other bodies connected with the prison system, including the Association of Chief Officers of Probation and the National Association of Probation Officers.

Britain has a bigger proportion of its population in prison than has any other European Community country, and the manifesto says use of prison sentences has risen in the past decade. However, only a fifth of those imprisoned each year committed offences involving violence, sex, robbery or drugs.

"Most of those we imprison could be dealt with by non-custodial measures."

CEGB profit rise will ease sell-off, Labour declares

By John Mason

TRADING PROFITS of the Central Electricity Generating Board will have risen by about 70 per cent in real terms within two years as a result of the 9 per cent and 6 per cent price increases decided by the Government, according to a memorandum by Mr John Baker, managing director of the CEGB.

The document was obtained by Mr Tony Blair, Labour's energy spokesman, who said it outlined the CEGB's revenue costs throughout the period when the price rises take effect. Mr Blair said yesterday the figures showed that the price rises were intended to boost profits after privatisation and ease the flotation of the CEGB's successor companies, National Power and PowerGen, towards the end of 1990.

The memo by Mr Baker, the managing director-designate of National Power, also showed that the privatisation process would cost £76m next year.

However, Mr Cecil Parkinson, Energy Secretary, yesterday fiercely denied Labour's claims that the Government was keeping secret what shadow ministers have described as the "staggering" cost of privatising Britain's electricity industry.

Mr Parkinson, speaking on BBC Radio's The World This Weekend programme, said: "The idea that there is something secret or concealed is absolute nonsense.

"I have seen a copy of the memorandum. It is not a government document. In that document it specifically makes clear that they are separating out expenses to be incurred as a result of privatisation."

Mr Parkinson also denied that this was "a hefty bill" for privatisation. He said: "Of this, £30m is to do with computer services and building computers."

An official for the CEGB said: "We very strongly deny that we concealed this. We did identify these costs in a report to the Electricity Council on our bulk charges."

Mr Baker's document says the CEGB has two big capital projects to be funded from trading profits before privatisation: building the Sizewell B pressurised water nuclear reactor and fitting desulphurisation equipment to the Drax coal-fired power station.

CEGB net assets will be written down by £3.5bn to £23.5bn by the end of this financial year, mainly as a result of poorly performing advanced gas-cooled nuclear reactors.

The CEGB recognises the Dungeness B, Hartlepool and Heysham 1 AGRs will be unable to meet their design performance and so their asset values will be cut by £2.5bn. The value of the Drax power stations is to be reduced by £1bn.

National Savings outflow continues

By David Lascelles

THE STEADY outflow from National Savings continued last month. Depositors withdrew £104.1m more than they put in as they switched savings to higher-yielding alternatives.

The net withdrawal would have been substantially higher but for the introduction of the new five-year Capital Bond at the beginning of the year. That attracted £67.9m during January.

Other products that produced a net inflow of new money included the investment account with £7.1m, income bonds with £11.8m and index-linked certificates with £16.5m.

The total balance of savings outstanding at the end of January was £37.1bn, up from £35.9bn a year previously.

● National Savings should be privatised, says the Institute of Economic Affairs in the latest issue of its journal Economic Affairs.

The journal says the present system works against the public interest in that it protects a state monopoly, costs the public £500m a year and distorts the market for savings through its tax incentives.

Chance for food sector to take the lead

David Fishlock considers what can be done to eradicate bacterial contamination

BRITAIN CAN do nothing quickly and cheaply to eradicate bacterial infection of food, says Dr David Conning, director of the British Nutrition Foundation, the food industry's think tank, based in London.

However, he believes the industry, particularly big retail groups accustomed to giving customers what they ask for, should now take the lead in remedying a situation over which politicians have prevaricated through the 1980s and which consumer activists have largely ignored.

The foundation was set up in 1967. Its main objectives are to critically evaluate information on nutrition; fund academic study in nutrition; and improve public understanding of food.

Dr Conning, a medical scientist, is a specialist in toxicology who has just left a chair in the subject at Surrey University. He became the foundation's director three years ago after eight years as director of the British Industrial Biological Research Association, a joint government-industry laboratory for the safety of food chemistry.

Dr Conning sees Britain's prevailing food policy as requiring that food and its quality shall be what the consumer expects. In short, the onus is on the consumer.

Until recently, consumer expectations were low compared with those of consumers in other European Community countries. Dr Conning cites a Spanish nutritionist who became concerned that catering for the British tourist was lowering Spain's standards.

Affluence is changing those expectations, but from a low base. Britons still spend less of their income on food than do their EC partners.

A result of the national quest for cheap food and food self-sufficiency has been enthusiasm for food additives. "Food of lower quality has been made more attractive and made to last longer by using additives," Dr Conning says.

Some people rebelled and formed the core of enthusiasm for so-called organically grown foods. However, alternative foods are inherently costly and account for only a tiny part of the market, he says.

The Government has taken food additives seriously, however. It now has its Food Advisory Committee to evaluate additives, the equivalent of its Committee on Safety of Medicines.

Consumerist bodies concerned with food rail against the Food Advisory Committee because it includes industrial experts. However, as Dr Conning says, industry is precisely where one would expect to find much of the expertise on food and its safety.

David Conning: consumer groups' vested interests

What worries him more is government monitoring of the FAC. Statutorily, there is joint monitoring of the work of its expert sub-committees on toxicology, cancer and so on by both the Ministry of Agriculture, Fisheries and Food and the Department of Health.

In any matter affecting human health, the Health Department's view should prevail. In reality, MAFF may not always defer to the Health Department.

Dr Conning says science loses out to public perception. He foresees less distortion were consumerist groups to enter a better dialogue with the industry. "It's my belief consumerist organisations have their own vested interests and represent a very small proportion of consumers."

The organisations claim a victory in securing the ban on hormones from EC meat but there is no safety reason other than that some overseas companies had misused hormones. Hormones could help to provide leaner meat, he says.

Dr Conning says of infections confusing government in the past two months that the salmonella epidemic began a decade ago with cheap imports of South American fish meal.

He believes that although poultry naturally harbours the salmonella bacterium, battery-farmed chickens were cleaner than free-ranging ones until producers were seduced by the cheap new source of feed.

Scientific advisers tried to introduce safeguards but failed. "I would be extremely surprised if MAFF and the Health Department had not sorted out what was required to control the quality years ago," he says.

The extra cost of properly sterilising the feed proved the stumblingblock.

Consumerist groups assumed that the rising incidence of food poisoning due to salmonella arose from consumers' poor hygiene. That was not one of their targets.

Only when a salmonella species appeared that penetrated eggs did the consumer himself sit up and take notice.

Dr Conning believes that fewer than one in five UK flocks are heavily infected but that eradicating the infection through properly sterilised feeds might take three years.

It would be quicker to order infected flocks to be killed. However, that would push up the cost of chicken and eggs, and two or three years would be needed to rebuild flocks.

A quicker, more complete way of protecting the consumer against salmonella could be for all poultry to be pasteurised with a high dose of radiation, a process used for medical implants and special diets for transplant patients.

On that, an expert committee has reported favourably to government. It would require the industry's heavy investment, and a delay while facilities were built.

But the biggest hurdle is that consumerist groups have opposed irradiation because of its nuclear connection, and the Government has again failed to implement the advice of its scientific advisers.

Industry 'high-taxed beside institutions'

By Philip Stephens, Political Editor

A SHARP rise in the tax burden on industrial companies compared with that on financial institutions is highlighted today in a pre-Budget report prepared by the Labour Party.

Mr Bryan Gould, Labour's trade and industry spokesman, says in the report that the effective income rate on Britain's manufacturing companies jumped from about 10.9 per cent in 1979 when the Conservatives took office, to 16.9 per cent last year. In the same period, financial institutions' tax rate dipped from 4.9 per cent to 4.5 per cent.

The report, prepared from official statistics, shows that industry's tax burden fell from a peak of more than 20 per cent in 1985 but is still three times as high as that for financial institutions.

Mr Gould says the figures underline the heavy bias in the tax system against productive investment. Along with high interest rates and an overvalued currency, that has been a significant factor in the weakness of UK industry, he says.

He urges Mr Nigel Lawson, the Chancellor, to produce a "Budget for industry," bringing down interest rates, clamping down on consumer credit and taking a "long look at company taxation."

● The Labour Party should abandon a policy of blanket re-nationalisation of privatised industries in favour of policies that encourage competition and protect consumers, the Fabian Society says.

In a submission to Labour's policy review group, the socialist research organisation says regulation and anti-monopoly policy can go a long way to achieve equitable and balanced growth, protection of consumers and economic equality.

Social Ownership, Regulation, Competition. Fabian Society, 11 Dartmouth Street, London SW1H 9BN (send SAE).

University funds 'should be linked to business ties'

By David Thomas, Education Correspondent

A PLEA for the new Universities Funding Council to take account of universities' links with business when it allocates money has been made by Professor John Ashworth, Vice-Chancellor of Salford University.

The funding council is due to take over the role of channelling government money to the universities in April from the University Grants Committee. It contains more senior industrialists than its predecessor and its chairman, Lord Chilver, has close links with industry.

Prof Ashworth has written to Lord Chilver proposing that a university's success in building links with business should be one criterion by which it receives funds.

Under the present system, two main grounds are used by the UGC to decide how much money a university should get: its student numbers and its research quality, reflected in the number of research grants it wins, mainly from publicly funded research councils.

Prof Ashworth said of the present system: "No intelligent vice-chancellor will do other than compete ferociously for research council contracts."

But he added: "Salford isn't about that. It is about underpinning and supporting the industrial activities of, in the first instance, the north-west, but in some cases the whole country."

No firm decision has yet been taken on how the new council will distribute funds, but initial signs are that previous arrangements are unlikely to be changed radically.

Prof Ashworth is likely to face an uphill task in persuading fellow vice-chancellors that industry links should be given much weight in funding decisions because few universities have been as keen as Salford in building their business links.

Benefit rules to be eased to curb youth destitution

By Philip Stephens, Political Editor

THE GOVERNMENT is preparing to relax the new social security rules that prevent many young people aged 16 and 17 from receiving state benefit when they leave home, it indicated yesterday.

Amid MPs' rising concern at a growing number of destitute young people in large cities, the Department of Social Security said it was seeking to help what it called the very small number of young people affected by last year's changes in benefit rules.

Those changes debarred people between the ages of 16 and 18 years from receiving benefit unless they signed for a place on the Youth Training Scheme or were in exempt categories. The exempt include single parents, pregnant women, the disabled and refugees.

The aim of the changes was to discourage young people without jobs from leaving home, but some Tory MPs have joined the Labour Party and numerous child welfare groups in protesting that the rules were drawn too tightly.

Tomorrow Conservative MPs Mr Robin Squire, Mr Charles Irving and Sir George Young will table a Commons motion urging the Government to extend the list of exempt groups to those estranged from parents, those leaving care and those waiting for YTS places.

Yesterday the DSS said its planned changes would aim to protect the most vulnerable teenagers by avoiding the reintroduction of what it called a perverse incentive for young people to leave home. Its view is that well under 10,000 young people will be affected by the relaxation.

CBI rift over takeover rules proposals may come to surface

By Hazel Duffy

A GROWING rift in the Confederation of British Industry may be revealed this week when Mr John Banham, confederation director general, asks its ruling council to endorse proposals for takeover rules that would make it easier for companies to defeat hostile bids.

Mr Banham's proposals are tougher than those of the confederation's companies committee, set up at the CBI conference in November to examine takeover rules and chaired by Mr Ian Butler.

The committee's recommendations for confederation pressure on the Government will be submitted to the council on Wednesday. The proposals, which fall short of what some business leaders would like, include making the bid process more open and suggest making the costs of successful defences payable by the bidder where the bid is for £100m or less.

Two ideas floated by Mr Banham at conference have been rejected. They were that the shareholding level that would trigger a full bid should be cut to 15 per cent from 29.9 per cent, and there should be a three-year interval between an unsuccessful bid and a new attempt.

John Banham: presenting tougher proposals

Last week the committee's findings were discussed by the influential president's committee, which includes leading representatives from the City and industry. The latter's views reinforced Mr Banham's feelings that Mr Butler's committee had not gone far enough. He decided to seek council backing for a more powerful campaign.

The council will be asked to decide if it prefers that course, and to endorse a plan that all contested bids by companies considered bid-proof be referred automatically to the Monopolies and Mergers Commission.

Underlying the push to toughen the confederation's stance is some businessmen's belief that British companies are vulnerable to hostile bids because of highly developed equity markets and the high proportion of public companies in the UK compared with France and West Germany.

The view is that UK companies will be increasingly the victims of overseas bidders in preliminaries to the single European market, and that control of whole sectors might fall into such hands because of the degree of concentrated ownership in the UK economy.

However, the confederation also has to be careful not to appear to be lobbying for protection. Acquisitions in the US by British companies are ahead of foreign acquisitions of UK companies. The threat of takeover is also seen as a stimulus to good management and the improvement of UK competitiveness.

Record exports for wool textile industry

By Alice Rawsthorn

THE WOOL textile industry succeeded in breaking its export record in 1988 in spite of the difficulties posed by the strong pound for its sales to Europe and North America.

The industry, which is concentrated in the traditional mill towns of Yorkshire and the Scottish Borders, boosted its overseas sales by 3 per cent to £613m last year, according to the National Wool Textile Export Corporation, thereby breaking the previous record set in 1985.

In the opening months of 1988, the wool textile companies benefited from fairly good conditions for exporting and achieved significant growth in overseas sales compared with the previous year.

As the year progressed, and the pound rose on the foreign exchange markets, the environment became less favourable. Since the autumn, the industry's overseas sales have slowed down, especially to North America.

The industry could, however, depend on buoyant demand in Japan.

The more luxurious British cloths have become increasingly popular in the Japanese market, where lengths of cloth are often given as corporate gifts.

Some Yorkshire and Scottish companies have introduced special designs with decorative details for Japan. In 1988 the strength of the Japanese market was sufficient to counter the slowdown in North American sales. However, the export environment will be even more competitive this year.

Mr John Ward, chairman of the NWTEC and managing director of Thomas Carr, said that the export success in 1988 had been achieved "despite worrying factors" and that "no one would minimise the more difficult climate" for exporters in 1989.

The wool textile companies derive almost half their annual output from overseas sales. In recent months wool textiles, like the rest of the textile industry, has been plunged into intensely competitive trading conditions.

The combination of a strong pound and the uncertain outlook for consumer spending has created soaring imports and erratic domestic demand. The more vulnerable areas of the industry, such as spinning, have already had cuts and closures.

Water purity dispute with EC 'to be resolved next month'

By Philip Stephens, Political Editor

THE GOVERNMENT yesterday voiced confidence that its dispute with the European Commission over water purity standards will be resolved next month at a meeting between Mr Nicholas Ridley, the Environment Secretary, and Mr Carlo Ripa di Meana, the European Community's Commissioner for the Environment.

Mr Michael Howard, the minister responsible for the Government's plans to privatise the bulk of the industry, also expressed confidence that those water companies already in the private sector would scale down their planned price rises.

However, he declined to estimate the total price rises that water consumers faced over the next decade.

New spending to meet higher water standards would add between 7.5 per cent and 12.5 per cent in real terms to water bills by the year 2000 but those increases would be in addition to unspecified rises that are implied by already existing investment programmes.

Mr Howard, speaking on BBC television, said the Government would offer the Commission a timetable for the privatised industry to comply with EC rules on water purity.

Although there would be variations from one company to another, the industry would have complied with most of important directives by the mid 1990s, he said. In those circumstances, he was very confident that a deal would be reached when Mr Ridley met the Commission.

Mr Ripa di Meana, speaking on the same television programme, suggested that a deal was possible, although he emphasised his doubts about the powers the water bill gives to the Government to waive the rules.

However, he added that a statement of principle from Mr Ridley would not be enough to satisfy the Commission.

Mr Howard, referring to price rises of 30 per cent to 70 per cent proposed last month by the private companies, indicated that if they proceeded, the companies would face a squeeze on their charges once the rest of the industry was privatised.

Mr Howard has been telling chairmen of the statutory companies that the post-privatisation regime for the industry will allow substantial rises to be phased in over a number of years if they should prove to be needed to fund investment.

Equally, however, the Government would take a tough line over future increases if the companies ignored its advice to hold this year's rise to below 10 per cent.

East Worcestershire water company last week announced that it planned to raise prices by 9.8 per cent.

Initially it was not among those companies planning the largest rises.

Electricity privatisation, Page 9

Leisure industries 'face unsure future'

By David Churchill, Leisure Industries Correspondent

BRITAIN'S leisure industries face an uncertain future as a result of the squeeze on consumer spending and the failure of leisure operators to provide a higher level of service, according to two reports on the leisure sectors by market forecasters.

"The rate of expansion in nearly all leisure sectors in 1989-90 will be well below that seen since 1983," says Leisure Consultants, a Suffolk-based research consultancy.

"We do not expect leisure markets to regain the recent momentum until the pre-election period of 1991-92," it adds.

Leisure Consultants says that all companies operating in the leisure sectors face more difficult market conditions over the next two years.

"An economic slowdown means that consumers will be more cautious about buying goods for sports, do-it-yourself, and home entertainment, or spending on expensive outings and holidays away from home."

The Henley Centre for Forecasting, a London-based market forecasting organisation, also believes that the present economic uncertainties mean that "the overall leisure markets will over the next two years revert to the steady but unspectacular growth patterns of the early 1980s before picking up pace again in the early 1990s."

Leisure Consultants and Henley are critical of the failure of leisure operators to expand leisure markets in recent years.

"In the last few years, money potentially available for leisure has leaked out into extra spending on more basic areas like clothing, home furnishing and motoring," says Leisure Consultants.

"Consumers are giving more priority to upgrading their leisure equipment and environments than to extending the range of their free-time activities," it adds.

Henley says that the under-exploitation of the leisure market lies "with the fact that many of the more traditional British leisure sectors such as gambling, cinemas, and domestic holidays continue to be characterised by a perceived poor level of personal service."

It adds: "This poor level of service is tied up with the historical problem of both British service operators and consumers in separating the concept of decent service from overtones of servility."

Leisure Forecasts 1989-93, Leisure Consultants, Foxearth, Sudbury, Suffolk. £175.

Leisure Futures, Henley Centre for Forecasting, 2 Tudor St, London EC4. £800 a year.

Bow Group urges end to mortgage relief

By Simon Holberton, Economics Staff

THE GOVERNMENT should abolish mortgage interest relief when it introduces the community charge and plough any savings from that into tax cuts, according to a pamphlet published today by the Bow Group, a Tory Party pressure group.

The author, Mr Rodney Atkinson, points out that mortgage relief costs the Exchequer £5bn a year. He says it is a "socialist" subsidy and, far from encouraging Conservative virtues of thrift, home ownership and house building, it discourages them.

"The reason why the British don't save is because MIR subsidises borrowing and is a prime cause of inflation which is a tax on saving," he says.

Mr Atkinson claims that the speculative boom in house prices is about to end and that the Government should prepare for it so that those "seduced" into home ownership can find a way out of the trap about to be sprung.

He says the Government must ensure that financial institutions do not behave irresponsibly when home owners get into trouble after house prices collapse and that financial institutions do not discourage early loan repayment.

Mortgage Interest Relief: Time For Abolition, by Rodney Atkinson. The Bow Group, 240 High Holborn, London, WC1V 7DT. £5.

Quality TV appeal on licence bids

By Raymond Snoddy

APPLICANTS for future commercial television licences should have to state how much they plan to spend on programmes as part of their overall bids, the Government has been told.

The Campaign for Quality Television, a non-political industry pressure group, argues for a modified form of auction of licences, in evidence submitted to the Home Office on the white paper on broadcasting in the 1990s.

The group says the white paper proposals for a highest-bid auction, following an initial quality threshold, "creates a clear conflict between providing the best possible television service for the viewer and the maximum possible return for the taxpayer."

To avoid such a conflict, the campaign group suggests a three-step process:

- Applicants should quantify their financial commitment to programmes.
- The Independent Television Commission, the new regulatory body, should weight applicants' programme proposals.
- In the final stage of the tender process, the ITC should take into account the bidder's financial commitment to the viewer as well as the proposed contribution to the Treasury. The ITC should not necessarily have to accept the highest bid.

The group also wants to see high-quality current affairs in main viewing periods and guaranteed proportions of hours and resources for original British-produced arts, education, religious, drama, documentaries and children's programmes.

Lever launches Surf as liquid

LEVER, the UK soap and detergents arm of Unilever, has launched Surf, one of its oldest brands, in liquid form. The product will share a £8m promotional budget with reformulated Surf powder in the five months after the launch.

All Lever's main detergent brands are now available as liquids. In just over two years, liquid detergents have come to account for 38 per cent by value of the £630m low-suds detergent market, Lever said.

Clapham crash inquiry opens

By Kevin Brown, Transport Correspondent

SOME British Rail staff are expected to face personal criticism at the public inquiry into the deaths of 34 people in the Clapham rail crash, which opens in London today.

BR and the National Union of Railwaymen have indicated that some of those involved in signalling work carried out before the accident will have individual legal representation at the inquiry - the normal safeguard for people likely to be subject to criticism.

It was not clear, however, whether the inquiry would consider the formulation of BR policy on signalling, financing and other issues as well as the specific events preceding the accident.

The NUR has said it will not allow two or three technicians to be "pilloried" for carrying out policy determined at a much higher level.

Mr Anthony Hidden, QC, the inquiry inspector, said at a preliminary hearing last month that his aim was "to discover exactly what went wrong to permit this dreadful accident to happen," and "to demonstrate exactly what needs to be done to reduce the risk of a recurrence to the remotest degree humanly possible."

The accident happened when three trains collided just outside Clapham Junction, in south London, during the morning rush hour on December 12.

An internal BR inquiry concluded that the accident was caused by the defective installation of signalling equipment combined with the failure of a fail-safe mechanism that should have stopped all the trains in the area.

The internal inquiry report called for disciplinary action against some staff, but BR has delayed any action until after the public inquiry concludes.

The possibility of criminal charges has not been ruled out, although Mr Alan Green, the Director of Public Prosecutions, has said that witnesses will not face charges based on their evidence to the public inquiry.

The inquiry will look at the methodology, organisation and implementation of changes that were being made to the signalling system at Clapham when the accident occurred.

Evidence will also be taken on the progress of the signalling work, including earlier difficulties, and on training and staffing.

The inquiry may also consider wider issues, such as overcrowding on trains and the use of ageing rolling stock without modern safety features.

There has also been pressure from the railway unions and the Labour Party for the inquiry to consider the effects on safety of alleged underfunding of British Rail by the Government.

The inquiry is expected to last several months and its report is unlikely to be published until the late summer.

Scots divestment advisers named

By James Buxton, Scottish Correspondent

MOVES by the Scottish Development Agency to dispose of much of its substantial investment and property portfolios are gathering pace with the appointment of consultants to advise on what form the privatisation will take.

The Government has named Quayle Munro, the Edinburgh merchant bank, to advise it on the SDA's proposals for disposing of part of its investment portfolio.

Simultaneously the SDA named James Barr, the Glasgow chartered surveyors, to evaluate its portfolio of industrial estates, factories and land, and advise on ways of selling them to the private sector.

The Government wants the SDA to shed a large part of its assets which are considered no longer necessary for its role in economic development. However, the agency will still provide factories and invest in new ventures.

The SDA's portfolio of industrial investments was valued at £52m in the agency's 1988 accounts.

Quayle Munro is to advise Mr Malcolm Rifkind, the Scottish Secretary, on the agency's proposal to set up a private-sector fund to which some of its investments would be sold. It would have the aim of creating a self-sustaining vehicle for further investment in Scottish industry.

Quayle Munro will consider possible alternative ways of privatising the portfolio.

The agency's property portfolio was valued in the 1988 accounts at £158m. The SDA is Scotland's biggest industrial landlord, with 17m sq ft of factory space in 200 locations.

Some sales have taken place in recent years as the agency has tried to concentrate on encouraging projects that might not be developed if they were judged in purely commercial terms.

Now the SDA wants to involve the private sector in letting industrial space and says it has already received expressions of interest from private developers. The agency says it is experiencing buoyant demand in the property market. Where there is no realistic prospect of private provision, the SDA will remain as the funder and developer of property.

BAe flies further along cost-cutting route

Michael Donne reports on the benefits reaped by the group from restructuring

WHEN British Aerospace, which makes aircraft, guided weapons, cars and military supplies, presents its financial results for 1988 next month, it will be able to report significant progress in its two-year campaign to cut costs.

The group's overall plan to cut costs by as much as a third by the early 1990s, to ensure survival in an increasingly competitive environment for high-technology products, was announced in 1987.

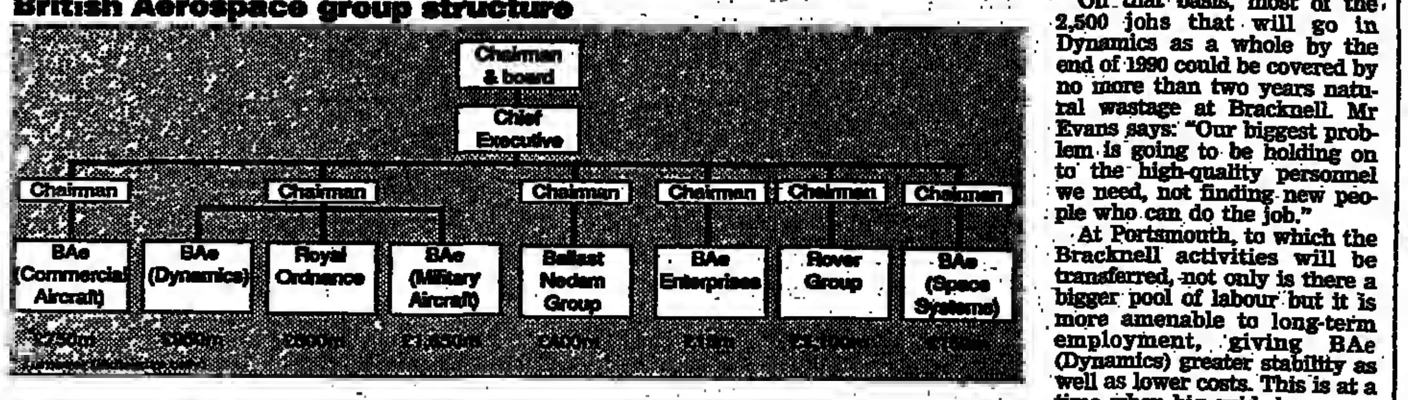
Every part of the group, including later acquisitions such as Rover Group, Royal Ordnance and Ballast Nedam, the Dutch construction company, have since been subjected to thorough scrutiny of costs to increase efficiency. As a result, BAe will be able to report that in Rover Group, production of cars per man per year has risen from six to an average of 15.

In aerospace, the number of days taken to build an Airbus A-320 wing has been cut from 67 to 23, against 27.5 for a Boeing 737, with proportional savings in costs, at a time when the overall volume of Airbus wing production is rising sharply.

In civil aircraft production, the number of weeks required to assemble a Type 125 executive jet has been cut from 19 in 1987 to 12 in 1988, for a Jetstream turboprop from 16 weeks to 10 and for a Type 146 regional jet from 26 to 12.

In military aircraft, final assembly of the Tornado multi-role combat aircraft has been cut from 33 weeks in 1987 to 23 weeks in 1988, and for the Harrier II jump-jet from 27 weeks to 20.

British Aerospace group structure



What this proves is that the comprehensive reorganisation of British Aerospace has begun to produce results, with increases in labour productivity, notwithstanding expansion of the group in size.

Changes in BAe's structure during recent years show how far this reorganisation has gone. From a 1981 structure of only two groups, Aircraft and Dynamics, involving no less than 11 different divisions, the changes by last year had resulted in only four divisions – Military Aircraft, Civil Aircraft, Dynamics (guided weapons) and Space and Communications.

However, even this was not good enough in the intensifying climate of competition in world aerospace. Each division was handling too many diverse activities with too many factories and other facilities. Further rationalisation was needed.

As a result, throughout 1988 a series of internal "business reviews" were undertaken resulting in dramatic changes in the entire BAe structure (see chart). This now comprises a series of eight profit-centred, wholly-owned subsidiaries covering Commercial Aircraft, Dynamics (including guided weapons), Royal Ordnance, Military Aircraft, Ballast Nedam, BAe Enterprises, Rover Group and Space Systems.

Each organisation has its own chairman and board of directors, and is required to operate profitably in its given area. Biggest of the eight is Rover, with a turnover of £3.1bn, followed by Military Aircraft, with $1.85bn, Dynamics (£950m), Commercial Aircraft (£750m), Royal Ordnance (£500m), Ballast Nedam (£400m), Space Systems ($150m) and BAe Enterprises (£15m).

It is against this background that last week's reorganisation of the Dynamics subsidiary must be viewed.

Although 2,500 jobs will disappear by 1990 as part of this, the group says that far from being a run-down of the subsidiary, it must be seen as a streamlining to eliminate unnecessary labour wastage.

It will also enable BAe to operate more cost-effectively in an increasingly competitive guided weapons and associated equipment sector worldwide.

Mr R.H. Evans, chairman of BAe (Dynamics), insists that the changes are market-driven. Contracts are tougher to win and more price-sensitive than ever, and will become even more so through the 1990s.

Moreover, although the decision to close the Bracknell plant making guided-weapons equipment such as gyroscopes, and to shift production to Portsmouth, has been severely criticised, it will significantly improve the labour supply and smooth the production process.

At Bracknell, demand for the high-quality, technologically-educated labour that BAe (Dynamics) needs has been fierce, with the result that personnel turnover has been as high as 35 per cent a year on a total of about 1,900 employees.

On that basis, most of the 2,500 jobs that will go in Dynamics as a whole by the end of 1990 could be covered by no more than two years natural wastage at Bracknell. Mr Evans says: "Our biggest problem is going to be holding on to the high-quality personnel we need, not finding new people who can do the job."

At Portsmouth, to which the Bracknell activities will be transferred, not only is there a bigger pool of labour but it is more amenable to long-term employment, giving BAe (Dynamics) greater stability as well as lower costs. This is at a time when big guided-weapons contracts are about to move into production, including the uprated Rapier 2000 ground-to-air weapon and the multi-national Trigat anti-tank weapon.

Mr Evans also stresses that the changes have not been dictated by the need to raise cash from the sale or redevelopment of the sites at Hatfield and Bracknell that will become redundant. This need is a by-product of the changes, not a reason for making them. Cash yielded from relinquishing those sites will help to improve the overall balance sheet.

Moreover, now is the right time to change, with a slow-down in production of some guided-weapons systems as contracts are worked through prior to the build-up of production of the big new ventures on the way.

To have delayed a restructuring might well have resulted in disruption of the new production programmes, to the detriment of BAE (Dynamics) reputation in an unforgiving world market.

Ryan 'may have left Ireland'

By Kieran Cooke in Dublin

A REPORT in an Irish newspaper says that Mr Patrick Ryan, the former missionary priest at the centre of a recent row between London and Dublin over extradition procedures, has left Ireland.

The Sunday Press newspaper, published in Dublin, said Mr Ryan had slipped out of the country and there was no clear indication as to where the former priest was now living. Mr Elio Molocco, Mr Ryan's solicitor, would neither confirm nor deny whether his client had left the country.

Mr Joe Ryan, Mr Ryan's brother, who has been leading a campaign opposing the former priest's extradition to Britain, said he had not seen his brother since 10 days after Christmas.

It was not immediately clear whether the Irish authorities knew of Mr Ryan's present whereabouts. Mr Ryan is wanted in Britain for questioning in connection with a series of IRA murders and bombings.

Mr Ryan was at the centre of a political storm late last year after both the Belgian and Irish governments turned down British extradition requests.

The Irish Attorney-General said that although evidence supplied by the British authorities indicated that there was a case against Mr Ryan, the former priest would not be extradited because adverse comments in the British media meant that Mr Ryan might not receive a fair trial in Britain.

Britain subsequently forwarded papers to the Irish authorities to support its case for Mr Ryan's trial under the Irish Criminal Law Jurisdiction Act, whereby a person can be tried for alleged offences in another country.

The Irish Director of Public Prosecutions is now reviewing the British case against Mr Ryan and is soon due to pronounce whether the case will go before the Irish courts.

MANAGEMENT

Sir Frank Rogers (left) and Robin Miller: EMAP's move into youth magazines was indicative of its bold approach

The commercial wisdom of a 'cottage industry'

EMAP has grown big in a small way. **Vanessa Houlder** explains how

In the magazine wars of the past 15 years in the UK, a nimble upstart has repeatedly seized the initiative from the monoliths. The company in question is EMAP, a publishing, printing and exhibitions group, which has attributed much of its success to a decentralised "cottage industry" approach to management.

Its soaring fortunes have been reflected in its expansion from 19 newspapers and nine magazines in 1973 to more than 58 newspapers, 94 magazines and 31 annual exhibitions. Meanwhile its market capitalisation has moved ahead from £4m to £331m.

But given this spectacular growth, how far has the Peterborough-based company been able to maintain its "cottage industry" style? And, if it has, how successful can this philosophy be in the new world of ever larger publishing houses?

EMAP appears to be winning over the sceptics on both counts. It is still resolutely attached to the ethos of decentralisation, although its increased size has involved a fresh approach to some aspects of its organisation. It has also attempted to break new ground in motivating its employees – most notably in its relatively new exhibitions division.

The commercial wisdom of its approach is also increasingly accepted. Bronwen Maddox, an analyst at Kleinwort Grieveson, has voiced concern that EMAP, like other medium-sized UK publishers, could find itself boxed in, with margins under pressure and new launches taking ever longer to break even.

However, these worries have been increasingly assuaged, she says, as EMAP continues to be successful in building circulation in niche markets.

The foundations of its present management style were laid in the early 1970s, when Sir Frank Rogers, the former managing director of IPC, the UK's biggest magazine publisher, became chairman. Before then, the company had been run in a paternalistic fashion by the founding Winfrey family. The decision to appoint an outsider represented, at that time, an important change, although Richard Winfrey, grandson of the founder, has remained involved as deputy chairman.

Still reeling from the "extensive bureaucracy" of IPC, Sir Frank forged a philosophy of decentralisation. "One of the things I learned at IPC is that it is almost useless telling people what to do," he recalls. "Individuals like taking decisions and being allowed to get out and do things."

As a result, EMAP took the opposite strategy from IPC, which had concentrated its magazine operations into one office block. It established small geographically spread groups of newspapers and magazines with each publication run as an individual profit centre.

EMAP's management style resulted in large measure from the appointment to the board in 1975 of Robin Miller to build up the magazine division. A former editor of Motor Cycle News, Miller was down-to-earth, anti-red tape and anti-establishment.

The result, says Sir Frank, was constant questioning of existing practices. "The biggest difference between the family's autocratic, paternalistic approach and that of Robin is in the attitude to change," says Sir Frank. "Now everything is challenged."

This iconoclastic style led EMAP into new areas. Ideas generated by editorial staff were frequently acted upon – although new ventures were subjected to rigorous research and failures closed down at an early stage.

An example is the company's move into youth magazines, led by the launch of the highly successful Smash Hits magazine. According to one publisher associated with the company at the time, the move was indicative of a bold approach, unhampered by notions of status or tradition.

"They seemed a young company that wanted to prove themselves," he recalls. "They were not caught up in ideas of status and tradition. They saw things in simple terms and did not feel inhibited about plunging into a new market."

This unorthodox approach was infused from the top downwards by Miller, now group chief executive, who describes his management philosophy as one of MBWA – Management By Wandering About. He does not have a desk, he does very little report writing and he abhors memos. He says: "I keep my eye on what is going on out there and try and imbue a sense of enthusiasm and direction."

This approach tends to mean that any issue is thrashed out with the maximum of discussion. One ex-editor recalls: "IPC did things by reports; EMAP did them by committee."

The real test of EMAP's management style has been posed by EMAP's breakneck expansion of the past couple of years. The annual outlay on acquisitions and launches rose from £3.5m in 1984-85 to £62.2m in 1987-88. Pre-tax profits in the year to April 2 1988 rose by 67 per cent to £25m on a turnover up 61 per cent to £188m.

Perhaps the most significant response to its increased size has been the break-up of the company into five smaller divisions, each with its own divisional chief executive. Thus EMAP is split into consumer magazines, business magazines, exhibitions, newspapers and newspaper printing. Each of these encompasses a number of smaller units, which in turn embrace a clutch of magazines, newspapers or exhibitions.

"With increasing size it is a fact of life that you get out less," says Miller. "Now the divisional directors do much of what I used to do." He is confident that EMAP will continue to foster new ideas, although he accepts that with increased size, acquisitions assume a larger importance.

But even so, EMAP is wary about expanding too far in any single division. "In five years' time we don't want to have 500 magazines," says Miller. "We cannot pay attention to them all."

For instance, last year it exchanged six of its small periodicals for a 35 per cent stake in a newly-formed independent UK publisher Boefors. The six magazines were not large enough to be self-sustaining and it was thought that they would receive more attention from a small and emerging company.

In a similar fashion, associate or satellite companies could be used in new launches, says Miller. The equity in a company set up to launch a magazine could be split between EMAP and the originator of the new idea.

But perhaps the most adventurous response of EMAP's management has come from the exhibition division. Like the rest of the group, the division is divided into small groups, sometimes with as little as 16 people. "If EMAP is a cottage industry, we are a garden shed," says Rob Mackenzie, divisional chief executive.

Yet whatever the attraction to staff of being part of an autonomous unit, Mackenzie reckons that the motivation provided by a profit and loss account is limited. "Ninety per cent of people are not running into work because they are making an extra crust for the company," he says.

A better source of motivation is the quality of service provided to exhibitors, argues Mackenzie. "We are face to face with consumers when they are using our service. It is very easy to orientate people around quality of service."

Accordingly, he decided to survey customers last July to get a quantitative measure of their satisfaction of the service on individual exhibitions. By polling customers after subsequent exhibitions, the company is able to gauge how far it has been able to improve its service.

The staff's response, says Mackenzie, has been exhilarating. Proof of their enthusiasm is that they have even set up quality circles to improve their own performance. "It has given the 90 per cent of people who are not motivated by profit something measurable they can aspire to," he says.

In time, if employees accept the scheme as a genuine and fair measure of performance, it might be related to pay. It could also be extended to the rest of the group, says Miller. Suitably adapted, it could monitor the service offered to advertisers, for example.

At present, however, EMAP emphasises that the jury is still out on the scheme. Opinion could turn against it – not least from the exhibitors who might eventually baulk at filling in the surveys.

If the scheme does perish, the blow may be softened by EMAP's breezy acceptance of the right to fail. The company's philosophy on this point is frequently repeated by Miller. "To use an old motor-cycling analogy – if you don't fall off you aren't trying hard enough," he says.

Be that as it may, EMAP's success rate on both launches and acquisitions has been high – notwithstanding the closure of several financial titles last year. Eric de Bellaigue, analyst at CIBC, cites the success of Smash Hits, "Q", Just Seventeen and More! as evidence. "In terms of consumer magazines, there is nobody who can light a candle to them," he says.

Perhaps as a result, the company has reasonably good relations with the print and journalist unions. "It is definitely their style to get a one-to-one relationship with the journalists," says Gary Morton of the NUJ.

That is scarcely surprising in a company which adopts a style so heavily reliant on the goodwill and motivation of its staff. Its team approach is underlined again and again. In its annual report, for instance, Miller signs off with a promise "to grow, prosper and enjoy ourselves."

Not surprisingly, this ceaseless bonhomie does engender the odd note of cynicism. When EMAP took over Associated Kent Newspapers last year, some of its journalists somewhat sardonically dubbed the company AMAP: "All Meetings and Parties."

However, dissenters are in a minority. "EMAP is a company of enormous enthusiasm," declares Sir Frank. "A tiny minority of people might not be able to stomach it. The huge majority get wound up in the enthusiasm."

Thumbs down for chartered managers

Employers have now expressed their dislike. **Michael Skapinker** reports

British employers do not want a new national qualification of chartered manager. Nor do they want the British Institute of Management to be in charge of such a qualification. What is less clear is what they would like instead.

Employers have been responding to a consultation exercise carried out by the Management Charter Initiative, which was set up last year to improve the quality of UK management education. The MCI consulted a wide range of organisations and individual managers at the end of last year.

Among the questions asked were whether employers and individual managers thought there was a need for national management qualifications, whether the BIM should be given the right to award them, and whether there was any merit in trying to draw up a list of the knowledge, skills and qualities of the effective manager, also known as management competences.

The MCI's report on the consultation exercise* said that employers felt the establishment of professional management qualifications would "reduce flexibility and discourage innovation-taking at a time when the ability to adapt and change is paramount.

"Formal qualifications tend to make the holder resistant to change. It was argued that it was more important for individual managers to take responsibility for their own development through a personal development plan agreed with their employer."

Opposition to the BIM becoming the accrediting body for national qualifications also came from many employers and, more predictably, from other professional institutes. They felt, the report said, "that a chartered institute would inevitably look back to the 19th century, rather than forward to the 21st.

"The view was also expressed that the BIM had neither the track record in setting standards nor the prestige to achieve what is now sought."

The report said that while these views were widespread, they were not universal. In particular, individual managers were keener on recognised management qualifications than their employers were. They saw such qualifications as a passport which would enable them to move from one job to another.

What, then, did employers want, if not the chartered manager qualification and the BIM? They said they supported the establishment of local networks of MCI members, linked to local providers of education.

They were also in favour of more research into the question of what makes a competent manager. Some pointed out, however, that many organisations had already drawn up their own list of competences. These organisations said they were worried that a national list of competences would be unduly bureaucratic and would interfere with the work that their own companies had already done.

Some of those consulted argued that the list of competences should not be too inward-looking. With the approach of the single European market, fluency in other European languages and experience of working in another country should perhaps be a core competence.

Others were concerned about whether the list of competences would take the needs of smaller organisations into account. They were worried that entrepreneurial skills might not be adequately recognised simply because they are more difficult to define and assess.

Despite the donbts about the BIM, most respondents recognised the need for a body to carry the work of management development forward in the UK. Various suggestions were made, including a broadening of the membership of the Management Charter Initiative.

The Council for Management Education and Development, the MCI's parent body, has already decided to act on this snggestion. At its meeting today it will widen its membership to include a larger number of professional institutions, accrediting bodies and individual managers.

**Copies of the report are available from Robin Aram, tel 01-257 5417.*

CONTRACTS & TENDERS

REPUBLIC OF THE IVORY COAST

Tender No. 2920/DMP

1. The National Telecommunications Office of the Ivory Coast has obtained a loan from the IBRD, in various currencies, to finance the cost of the project concerning the refurbishing of the equipment and the strengthening of the maintenance of services.

It is planned that a portion of the funds granted for this loan will be used to carry out payment for a project covering the supply and installation of a system for the control of the radio-electric programmes on the Ivory Coast.

2. The National Telecommunications Offices invites, with this Tender, those candidates who are allowed to take part to present their bids under sealed envelope for the supply and installation of a control system of the radio-electric programme within the N.T.O.

3. The candidates who are allowed to bid can obtain further information and examine the Tenders files in the Office of the Chef de Services des Marchés, located on the 12th floor of POSTEL 2001, door 12-07. Phone: 34.67.61 or 34.66.12 - Telex No. 23790 or 23750, ABIDJAN.

4. Any candidate who is allowed to bid and who is interested in the present Tender can buy a complete set of Tender documents, by writing to the above-mentioned Department, or after consulting the Charge Books, for a payment of around 200,000 CFA francs, which will not be paid back.

5. Each bid must be accompanied by a deposit on tender of 1.5% of the total amount of the bid. This deposit must be put forward at the same time as the Bids to the Services des Marchés, Immeuble POSTEL, 2001, door 12-07, ABIDJAN-CI at the latest on the 13th of March 1989 5.00 p.m. imperatively.

6. The files will be opened in the presence of the bidding representatives who wish to be present at the opening on the 14th March 1989 at 3.00 pm at La Rotonde de la Cité Financière, in ABIDJAN-PLATEAU.

RENTALS

CLUBS

COMPANY NOTICES

FIRST AUSTRALIA PRIME INCOME INVESTMENT COMPANY LIMITED

International Depositary Receipts (IDRs)

Issued by

Morgan Guaranty Trust Company of New York

Notice of Annual General Meeting of Shareholders

Notice is hereby given that the Annual General Meeting of Shareholders of First Australia Prime Income Investment Company Limited (the "Company") will be held at Mercury House, 2 Tutakimoa Road, Rarotonga, Cook Islands on March 2, 1989 at 9:00 a.m. for the following purposes:

(1) To elect Directors to serve for the ensuing year;
(2) To ratify the appointment of Mr. L.P.C. Taylor of Price Waterhouse, Jersey, C.I. as auditor of the Company for the fiscal year ending September 30, 1989;
(3) The amendment of Primary By-Law No. 3 to permit the Company to pay Canadian dollar dividends;
(4) The amendment to the Articles of Association to permit monthly dividends.
(5) The amendment of Primary By-Law No. 6 to permit the Company to invest in further Australian and New Zealand securities.
(6) To transact such other business as may properly come before the Meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on January 20, 1989 as the record date for the determination of shareholders entitled to vote at the Meeting or any adjournment thereof.

By Order of the Board of Directors

Voting arrangements for IDR-holders

IDR-holders are not entitled to attend the meeting. Those who wish to vote must follow one of the following procedures:

1. If the IDRs are held in an account with Euro-clear or Cedel, IDR-holders must contact Euro-clear (attention: Equities Department - telephone 32-2-519.12.11 - telex 61025 MGTEC B) or Cedel (attention: Securities Administration - telephone 352.44.99.21 - telex 2791 CEDEL LU) by February 27, 1989 instructing them to block the IDRs in the IDR-holder's account until conclusion of the meeting and specifying the manner in which the votes attributable to their IDRs should be cast.

2. If the IDRs are not held in Euro-clear or Cedel, IDR-holders must ensure that their voting instructions, together with either their IDRs or their bank's confirmation of deposit (including IDR serial numbers), reach the Depositary at the address given below (attention: Securities Department - telephone 32-2-508.84.49 - telex 21752 MORBK B) by February 28, 1989.

A fee of USD 10 per voting instruction will be due to the Depositary. IDR-holders who instruct Euro-clear to vote will be debited by Euro-clear. The other IDR-holders are requested to transfer the fee to Morgan Guaranty Trust Company of New York, New York, for account 670-01-422 of the Depositary.

Copies of the information circular relating to the Meeting are available at the address indicated below:

Morgan Guaranty Trust Company of New York
35, avenue des Arts, 1040 Brussels
as Depositary

LEGAL NOTICES

KIRBY PROFESSIONAL RECRUITMENT LIMITED

NOTICE IS HEREBY GIVEN, pursuant to section 48(2) of the Insolvency Act 1986, that a meeting of unsecured creditors of the above named company will be held at Cork Gully, Phoenix House, Station Hill, Reading RG1 1UN at 11.00 am on 3 March 1989 for the purpose of having laid before it a copy of the report prepared by the administrative receivers under section 48 of the said Act. The meeting may, if it thinks fit, establish a committee to exercise the functions conferred on creditors' committees by or under the Act.

Creditors whose claims are wholly secured are not entitled to attend or be represented at the meeting. Other creditors are only entitled to vote if:

(a) they have delivered to us at the address shown below, no later than 1200 hours on 2 March 1989, written details of the debts they claim to be due to them from the company, and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and

(b) there has been lodged with us any proxy which the creditor intends to be used on his behalf.

Date 13 February 1989
N J Vooght
Joint Administrative Receiver.

ARTS

More 'splats' than 'kerpows'

Nigel Andrews at the Berlin Film Festival

There are good Berlin Film Festivals and there are bad ones. Writing midway through the 39th, one feels that the only thing that could save this year's *filmfestspiele* is a Berlin air lift: an internationally co-ordinated bid to evacuate all the films and film-makers now on offer and parachute in new ones.

It all seemed good on paper. While the sideshows shone with promise, including a retrospective devoted to cinema's glorious year "1939," the Main Competition boasted six top American films (including Oscar-bidders *Rain Man*, *Mississippi Burning* and *Dangerous Liaisons*), one top French film (the Paris-conquering hit, *Camille Claudel*) and new movies from Chantal Akerman, Jacques Rivette, Carlos Saura and other fest-circuit favourites.

But film festivals do not unfold on paper. They unfold on that volatile, unreliable thing called a cinema screen: which at times can seem an instrument of torture. The main speciality in Berlin this year has been running-times of crucifying length. Coming in at 2¾ hours each: Bruno Nuytten's *Camille Claudel*, Ulrike Ottinger's *Joan Of Arc In Mongolia* and Jacques Rivette's *La Bande De Quatre*.

The first, bafflingly breaking French box-office records even as we speak, chronicles the sculptor Rodin's passion for his beautiful fellow-chiseller, Camille Claudel (sister of poet Paul). Unfortunately, this passion seems to have consisted of Mlle Claudel (Isabelle Adjani) going slowly bonkers, until, succumbing to a fatal attack of bio-pic speech patterns, she utters the immortal line, "I lived for your Burghers of Calais, now I'm going to live for myself!" Rodin (Gerard Depardieu in a beard) looks on understandably bemused.

Ottinger's film, representing West Germany's push for the Golden Bear, is even worse. A cast of all-singing, all-dancing weirdos, led by Delphine Seyrig as "Lady Windermere," take the Trans-Siberian Express to Mongolia. Here their journey is rudely rerouted from surreal musical comedy into ethnic documentary. I liked the camels, hated the dialogue, direction, music, acting and conception.

For at least an hour, Rivette's *La Bande De Quatre* looks like proving the best European film in competition. Four aspiring young actresses split their time between rehearsals of a Marivaux play, under stern teacher Bulle Ogier, and solving the multiple mysteries of their shared house in the Paris suburbs. Are there ghosts? Why does a key fall out of the chimney one evening? What is their friend Cecile up to, dating a fugitive criminal? And who is the inquisitive smoothie (Benoit Regent) who tries to seduce each girl in turn and may — just may — be a police detective?

In early reels, this is Rivette at his best since *Celine And Julie Go Boating*: skittish, light-fingered, scattering painless symbols across the landscape. But the longer the film lasts, the more stretched become the threads of allegorical whimsy. The 165-minute span cannot support the weight of a portentously weightless plot (almost nothing is "resolved" even by final curtain). And one has the sense of a movie magician self-exiled to his own private island, a Prospero with failed spells and a dwindling audience.

Even some movies at Berlin that were not 2¾ hours long seemed it. Carlos Saura's gloomy *Una Noche Oscura* plunges us into the tale of the poet-monk St John of the Cross, who on this showing was a manic depressive with a taste for off-the-shoulder hair-shirts. And Wu Ziniu's *Evening Bells*, briefly banned in its native China for showing sympathy to the Japanese, is a banal anti-war movie seemingly designed to re-buff the glow of last year's Chinese Golden Bear winner, *Red Sorghum*.

I would love to have loved Chantal Akerman's *Chroniques d'Amerique*. At least the Belgian director is trying something different: a quasi-theatrical assemblage of skits and monologues (in English) about the experience of Jewish immigrants living in New York. Speaking straight to camera, her cast of unknowns rattle away while standing on midnight street-corners or sitting in a bluesy open-air restaurant under the Williamsburg bridge. But after two hours of this, the mood is less "underneath the arches" than overwhelmed by archness. Cuteness rises from the ashes of the holocaust: the Jewish tragedy becomes a vaudeville-with-tears.

World War 2 is, not surprisingly, a favourite stomping-ground for Berlin. The festival is generally overrun by "What did you do in the war, Daddy (or Mummy, or Auntie)?" documentaries. This year's best newcomer to the genre was US film-maker Debbie Goodstein, whose moving hour-long *Voices From The Attic*, reconstructs her parents' Anne Frank-style concealment in a Dutch loft from 1942-45. Meanwhile, weighing in at a marathon four hours was the documentary of the year (last year, but still going strong), Marcel Ophuls's Klaus Barbie exposé *Hotel Terminus*.

Skimming the postwar period were Yoji Yamada's *Hope And Pain* (Japan) and Alex Law's *Painted Faces* (Hong Kong). The first, shown in competition, is a saccharin-sweet tale of high-school life and love in Japan's post-'45 austerity years. The second — out of competition, but much better — is a funny, multi-coloured yarn set in a Chinese Opera school, and featuring subtly-woven variations on the postwar theme of "the old order changeth."

Elsewhere, Berlin has looked — not for the first time — to the US cavalry. I have already reviewed from America the big Hollywood sabre-rattlers here present. (The Berlin contingent can claim about 30 Oscar nominations between them.) Equally welcome at the festival were the humble foot-soldiers of American independent cinema.

Obie Benz's *Heavy Petting* is a paste-and-scissors documentary about sexual attitudes in the 1950s: funny bits of old beach-movies and sex education films jostling with reminiscences by William Burroughs, Allen Ginsbergh, Laurie Anderson and others. Roger Stigliano's *Fun Down There* is a "town mouse country mouse" tale about a farm-boy pitched into New York gay life. And Ron Mann's *Comic Book Confidential* — Canadian actually, but let us stretch latitudes — is a rollicking feature-length guided tour through the history of the "Eek! Splat! Kerpow!" industry.

Britain, alas — no "Kerpows" but a few "Splats" — has made a lean showing in Berlin '89. Paul Greengrass's *Resurrected*, the UK's sole competition entry, is a humane, worthy but painfully modest achievement. Dramatising the true story of the lost Falklands soldier who returned from "missing presumed dead" status to rejoin a startled family in Britain, and to be branded a deserter by the Press, the movie plods from scene to scene like a firework in search of a lighted match. Nothing quite ignites, despite deft moments and sensitive acting (Tom Bell and Rita Tushingham as Ma and Pa, David Thewlis as the boy).

David Hare's *Paris By Night*, rejected by the Berlin Competition, stole quietly into the Market. Quietness — nay, Trappist silence — may be the best response. After Hare's Golden Bear-winning *Wetherby*, here is a film with not a single credible character and a frankly lunatic plot. Shot *film noir*-style in an eternal Euro-night, it propels Tory Euro MP Charlotte Rampling through blackmail, murder, political conspiracy, marital crisis and dialogue that Hare must have composed while drowning in the bath.

The film's themes, remorselessly dialectical, are the usual Hare ones: heart versus brain, greed versus compassion, love versus self-interest, Thatcher versus the World. But the treatment of the themes is, to put it gently and politely, hare-brained.

Nigel Andrews

Isabelle Adjani: going bonkers in 'Camille Claudel'

Tennstedt's Mahler

FESTIVAL HALL

Every appearance that Klaus Tennstedt makes with the London Philharmonic is an event nowadays, and his performances of Mahler are understandably treasured. On Saturday he conducted the Resurrection Symphony; the queue for returns was enormous, and the reception rapturous.

Tennstedt's approach challenges the audience to remain uninvolved; where in some works, even some Mahler symphonies, that could make for overblown, crude assertiveness, here it fitted precisely, though a feeling of emotional blackmail was sometimes difficult to avoid. Not every facet of the symphony was equally convincing. Tennstedt throws the weight naturally upon the outer movements, with the first movement savagely hurled out, its full emotional range immediately engaged, and the finale allowed simply to accumulate intensity. But the lumpen rhythms of the Ländler were undercharacterised and one longed for the Scherzo to be lit with the same surreal intensity that had been directed on the details of the first movement. Fleet-footed playing, superbly co-ordinated, was not quite enough on its own.

The LPO's contribution throughout was exceptional. A few months away from a familiar orchestra allows one to appreciate its virtues the more vividly, and it is too easy to take for granted such uniform excellence in every department.

Here the brass choirs were utterly secure and the strings unfailingly expressive. The chorus was the LPO's own and the soloists were Yvonne Kenny, sweet-toned, accurate but a little self-effacing, and Jaard van Nes, less effulgent than many contraltos in "Urlicht" but convincing and beautifully poised. A memorable occasion.

Andrew Clements

Garden Concert

COVENT GARDEN

The second of this season's orchestral programmes to be given by the Orchestra of the Royal Opera House also brought the première of the second commission in the series sponsored by David Cohen. Last October Bernard Haitink introduced Nicholas Maw's *The World in the Evening*, and on Friday he conducted a work that stylistically had much in common with Maw's recent music, Colin Matthews's *Cortège*. Matthews's development has been more diverse than Maw's but the debts that his music currently declares to Mahler and Britten in particular — align him firmly with the same romantic-conservative tradition.

Cortège contains more Mahler than Britten; its 20-minute single span opens dramatically and with the promise of generating a tense, sombre discourse, but that expectation is only sustained for the first few minutes. The music starts to lose its way, and the clear outlines of its themes and harmonies begin to blur; the declared three-part scheme — gradually accumulating introduction, central development worked to the main climax, and shorter cathartic coda — fails to register as it should, and one is left with the impression of a work whose details do not cohere and which has not made the most expressively of its material.

Haitink and the ROH Orchestra had prepared the score well, and perhaps in a more flattering acoustic the work would make a bolder impression. For all that one welcomes the idea of the Garden concerts and the chance they give to hear such a competent and versatile orchestra in a wider context, putting on such programmes at Covent Garden seems an unrewarding business — the sound from that absurd flock-lined acoustic shell is unforgivingly dry and not at all refined. It's hard for any performance to come alive in such an environment, and the remainder of Friday's programme, however well executed, remained resolutely uninvolving.

Last year's Eurovision Young Musician of the Year, the Viennese-based Julian Rachlin, made his British debut in Mendelssohn's Violin Concerto, displaying an exemplary technique and expressive flair, but still at the age of 15 offering carefully coached rather than instinctively musical ideas. And Haitink's account of Stravinsky's *Rite of Spring*, despite its compelling moments, was quite lacking in electricity. One remembered with some wistfulness the tingling effect of the performances of *The Rite* that he conducted from the Covent Garden pit for the Royal Ballet in the autumn of 1987 — the orchestra and all salient features were identical, but what a difference a few yards and a different perspective make.

Andrew Clements

A man of observance

Gillian Darley reviews two architectural exhibitions

Herman Hertzberger is Dutch, but his commissions come from France, Germany, Italy as well as his home country. An established and respected architect on the Continent can move between countries as if there *really are* no barriers. British architects have yet to join them.

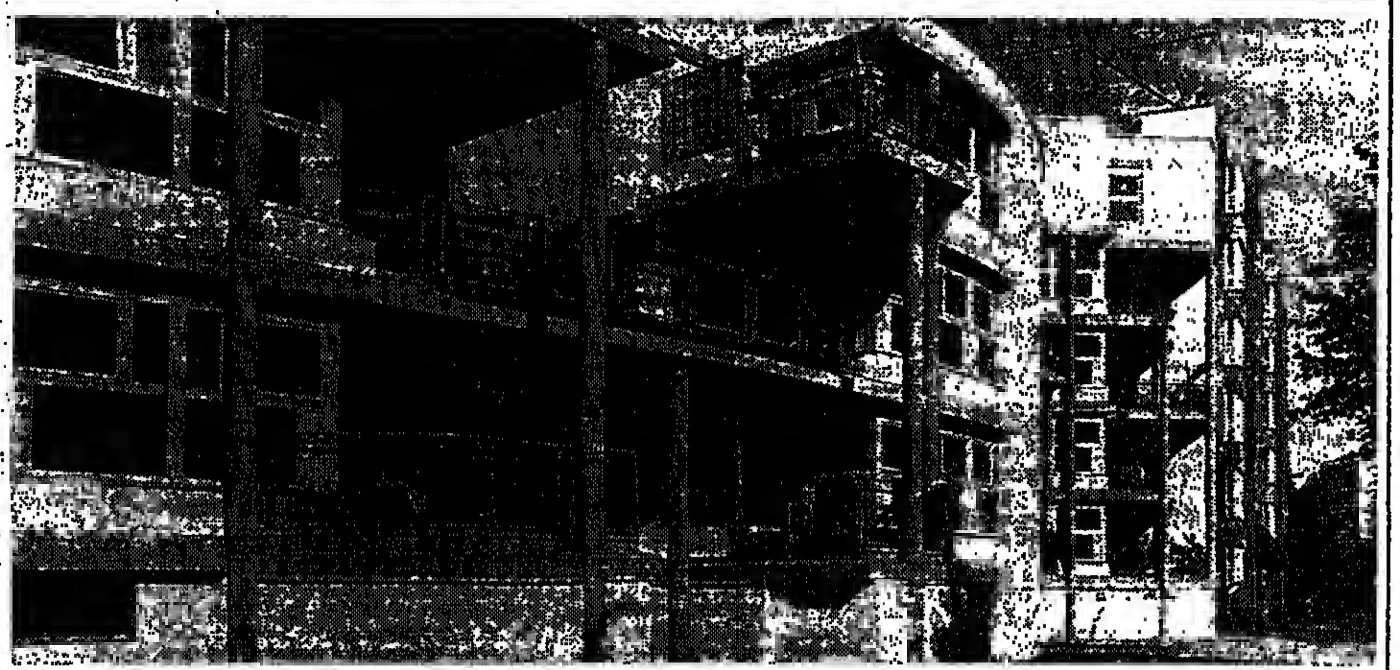
Hertzberger's commissions are almost all for public buildings or institutions. He is a practised player on the limited competition circuit — where the commissions for such buildings are often won.

The exhibition of Hertzberger's work on show at the 9H Gallery, 26-28 Cramer Street W1, until March 5, began in Amsterdam and is unfortunately two years out of date. That is a pity: public commissions currently available in Britain are largely prisons, new courts and police headquarters; Hertzberger's architecture, consisting of infant schools, libraries, housing for the elderly and for families, seems to come from a golden age when such projects were worth the careful consideration of the socially responsible architect.

Hertzberger is an architect who still exerts a strong appeal to architectural students. The gallery was *full* of them on a Saturday afternoon. Not dogmatic, he designs, observes, then redesigns if necessary. From his famous Apeldoorn office building to recent housing schemes in Berlin and Kassel, he shows a concern with the way in which people work and live which is exemplary. The buildings evolve, not from formal premise but from facts of life.

Given a commission to design an old persons' housing scheme, Hertzberger thought hard and long about what it means to be older and less mobile. His working sketches demonstrate that empirical thought process. He worries about contact between neighbours, about places to sit, about the way that the rooms fit together and work best.

His pair of infant schools in Amsterdam, known as the Apollo schools, one Montessori, one conventional, are sited like two comfortable villas in pleasant green surroundings. Inside, the logic of the plan is guided by the different practices of the schools: the Montessori is much less structured than its neighbour, and its spaces follow. His architecture is not about style, but content. We need him here.



Housing in West Berlin, Lindenstrasse, designed by Herman Hertzberger 1982-86

Style, rather than content, was the forte of Oliver Hill - a kind of Tigger of inter-War architecture who bounced from picturesque deep-thatched country houses to modern movement simplicity without a moment's hesitation.

He was fascinated by the 1930 Stockholm Exhibition, not at all by the theoretical basis of the modern movement, and off he went — an instant modernist with Scandinavian leanings.

When the young Hill presented himself at Lutyens' door for instruction, the wise man sent him off to work in a builder's yard for 18 months. When he began to practise as an architect in the early 1920s, Hill had developed a strong feeling for materials as well as an unhealthy tendency to emulate those he admired. Both characteristics followed him through his career, seen in an exhibition at the RIBA Heinz Gallery, 21 Portman Square until March 4.

Oliver Hill seems to have been most confident with interiors; he soon added Mayfair flats to the country houses of his clientele. His style is all too closely captured in Osbert Lancaster's memorable term "Curzon Street baroque."

Hill's Midland Hotel, Morecambe, of 1930, is a confident building which could equally well have been an imposing town hall. Modernist, though symmetrical, it was enlivened by Eric Gill reliefs, and for a year or two, a festive Eric Ravilious mural which then fell victim to damp — which says little for Hill's mastery of the materials in question.

The Frinton Park Estate, for which he drew up the plan and designed some houses, gave him an opportunity to invite a number of card-carrying modernists to participate. It was not a great success.

Oliver Hill was consistently generous to his artist contemporaries; commissioning rugs from Marion Dorn, reliefs from Gill and John Skeaping and paintings by John Nash and Ivon Hitchens to enhance his own work.

Yet he was more than a fashionable interior decorator. in the late 1930s he designed a number of schools for the LCC — without fee, never built — and another for the West Riding at Castleford, which was.

Alan Powers argues in his catalogues that Hill was less of a clown than an eclectic, more often the case among modernists than might appear. He was a curious figure, an enthusiastic nudist — extending to some rather dubious collections of photographs of nude children — inventor of absurd larks and schoolboy jokes and, above all, no intellectual at all.

Gillian Darley

The Sleeping Beauty

COVENT GARDEN

The Peter Wright/Philip Prowse staging of *The Sleeping Beauty* for Sadler's Wells Royal Ballet, like the same team's *Swan Lake*, succeeds where many another larger staging fails, by reason of visual elegance and clarity of imagination. Both are, essentially, productions geared for touring, with basic permanent sets and casts so managed that we do not recognise the need for dancers to double-up roles.

But Mr Prowse's impeccable historical sense — outlines, colours, decorative elements exact and true — and his skill at suggesting pomp without bombast, provide a magical framework for *Beauty*, as we saw on Thursday night, and Mr Wright's editing of the text does handsomely by ballet's crown jewels, the Petipa dances. (I hope that when he and his company are installed in Birmingham, funds and space will allow him to make a more extended journey panorama for Florimund and the Lilac Fairy).

We were at the Opera House to see two guests in the staging: Elisabeth Maurin and Gheorghe Iancu. Mlle Maurin came to Aurora as a debutante in the resident company's staging in December. Her performance then, as on Thursday, delighted by its lightness and charm of manner, and its unfailing sweetness of means. She offers the role to us with great freshness, each moment still touched by the prettiest innocence, as by a beautifully clear technique.

Mr Iancu has the Romantic looks and presence for ballet's princely roles, as we saw from his Albrecht with SWRB at the Wells a few weeks ago. The present partnership is too new to have reached any proper physical accord, but Mr Iancu takes the stage like an aristocrat in all things. Bravura moments are secure; rather more impressively, he can mime and convey gestural meaning with an ardent conviction. His appeal to the Lilac fairy during the vision scene, when Chaikovsky's melody seems the very voice of a yearning prince, was the music incarnate.

SWRB's artists work, as always, with evident dedication. I salute especially Miyako Yoshida, Sandra Madgwick and Julie Francis Allen, in variations shaped and displayed with happiest art.

Clement Crisp

Scorpions

HAMMERSMITH ODEON

British pop music is falling into line over 1992, trying out continental sounds with the same tentative enthusiasm shown in the UK for continental food a generation ago. Not that there was anything inhibited about the reception given the Scorpions at the Odeon on Saturday night.

This German heavy metal band has been on the road now for fifteen years and has built up a loyal following among the more thoughtful heavy metal head bashers, a minority sect.

The Scorpions score badly now on looks — heavy metal musicians are supposed to have blonde hair like Rampunzel and bodies as trim as the Princess of Wales: there was too much bulging guitarist fat on view and singer Klaus Meine does not quite get away with fondling the hair to the side of his head to draw attention away from its absence on top.

But the Scorpions have borrowed Gary Glitter's well tried ploy of bashing out a few perfunctory chords and then going quickly into a singalong chorus for the groundlings, and their light show must have strained the generators throughout west London, even as it set a stage bimbled with dazzle, so entertained with darting colours.

The relentless thrash of the sound exhausted its appeal to me after an hour, when the Scorpions and their good-natured acolytes were just getting their heads down, but as music for cathartic release, tastefully done, it could hardly be bettered.

Antony Thorncroft

ARTS GUIDE

February 17-23

MUSIC

London

The Philharmonia conducted by Giuseppe Sinopoli with Martha Argerich (piano). Wagner, Liszt, and Beethoven. Royal festival Hall (Tue) (928 8800).
London Symphony Orchestra conducted by Michael Tilson Thomas. Stravinsky, Ravel, Rachmaninov. Barbican Hall (Thur) (638 8891).

Paris

Tamas Vasary (piano). Beethoven, Chopin (Mon) Chatelet (40282800).
Olaf Baer (baritone), Geoffrey Parsons (piano) (Mon) Théâtre del'Athenée (47426727).
Nouvel Orchestre Philharmonique conducted by Serge Baudo, Bella Davidovitch (piano), Jean-Louis Gil (organ). Van Rossum, Franck, Saint-Saens (Mon) Grand Auditorium, Radio France (42301516).
Yo Yo Ma (cello) Kathryn Stott (piano). Schumann, Kirchner, Schubert, Brahms (Wed), Théâtre des Champs Elysées (47208637).
Julian Bream (guitar) Salle Pleyel (Thur) (45638873).

Vienna

Oesterreich heute festival, Ensemble Modern conducted by Ingo Metzmacher. Holler, Lachenmann, Winkler. Konzerthaus (Mon and Tues).
Wiener Symphoniker conducted by Franz Welser-Most. Beethoven, Hindemith, Schumann. Musikverein (Wed).

Brussels

Talich Quartet with Josef Suk (viola) playing Mozart, Brahms and Dvorak. Palais des Beaux-Arts (Tues).
Drew Minter (counter tenor) accompanied by Guy Penson (harpischord) performing Purcell, Monteverdi, Frescobaldi. Musée Instrumental (Wed) (511 3595).

Antwerp

New Belgian Chamber Orchestra conducted by Jan Caeyers with Jean-Marc Luisada (piano) playing Bizet, Chopin, Mozart and Weber. De Singel (Tues) (03.237.6158).

Amsterdam

Elly Ameling (soprano) accompanied by Rudolf Jansen. Haydn, Mozart, Schubert, Brahms, Faure, Poulenc (Tue).

Utrecht

Riccardo Chailly conducting the Royal Concertgebouw Orchestra, with Maria Ewing (soprano). Mahler (Thur). Vredenburg (31 45 44).

Rotterdam

Vermeer Quartet. Ginastera, Beethoven (Tue). Schubert Quartet. Schubert (Wed). Doelen (413 2490).

Frankfurt

Oslo Philharmonic Orchestra with Andrej Gavrilov (piano), conducted by Maris Janssons. Strauss, Rachmaninov and Tchaikovsky. Frankfurt, Alte Oper (Wed).

Rome

Die Philharmonischen Virtuosen Berlin, with pianist Marisa Tanzini. Mozart, Dvorzak and Schubert. Teatro Olimpico (Wed.) (393304).
Aldo Ceccato conducting Mozart, Beethoven, Testi's Sacrae Symphoniae with Marion Vernette Moore (soprano), Carlo Gaifa (tenor) and Franco Ruta, (bass) and Verdi's Te Deum from Quattro Pezzi Sacri. Auditorium in Via della Conciliazione. (Mon, Tues) (6541044).

New York

Philadelphia Orchestra conducted by Riccardo Muti with Westminster Choir directed by Joseph Flummerfeldt. Verdi programme. Carnegie Hall (Mon) (247 7800).
Joan Morris mezzo-soprano recital with William Bolcom (piano). Tchaikovsky, Balcom, Dvorak. Town Hall (Tue) (842 1818).
Eugene Istomin piano recital. Mozart, Debussy, Chopin, Beethoven. Carnegie Hall (Wed) (247 7800).
Juilliard Orchestra conducted by Leonard Slatkin. Schwantner, Beethoven, Shostakovich. Lincoln Center Alice Tully Hall (Wed). (874 6770).
New York Philharmonic conducted by Kurt Masur with Claudio Arrau (piano). Mozart, Beethoven, Brahms. Lincoln Center Avery Fisher Hall (Wed, Thur) (799 9595).

Washington

National Symphony Orchestra conducted by Alessandro Siciliani. Rossini, Mendelssohn, Respighi. Kennedy Center Concert Hall (Tue) (254 3770).

National Symphony Orchestra conducted by Sixten Ehrling with Ruth Laredo (piano). Beerlioz, Schumann, R. Strauss. Kennedy Center Concert Hall (Thur) (254 3770).

Chicago

Chicago Symphony Orchestra conducted by Erich Leinsdorf with Ruben Gonzalez (violin), Dale Clevenger (horn), Edward Dryzinsky (harp) and the women of the Chicago Symphony Chorus. Haydn, Chausson, Brahms, Debussy. Orchestra Hall (Tue) (435 6666).

Chicago Symphony Orchestra conducted by Erich Leinsdorf with Cristina Ortiz (piano). Brahms programme. Orchestra Hall (Thur) (435 6666).

Tokyo

Tokyo Philharmonic Chorus, conducted by Nobuaki Tanaka. Dufay, Gregorian Chant. Tokyo Bunka Kaikan, recital hall. (Mon (359 9755).

NHK Symphony Orchestra, conducted by Naoto Otomo, with Gunther Hogner (horn). Mozart, Dvorak. Tokyo Bunka Kaikan (Thurs) (437 6837).

Japanese Classical Music, Hideaki Kuriyabashi (koto). Vario Hall, Suidobashi (Thurs) (793 3912).

FINANCIAL TIMES

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Monday February 20 1989

Education's missing link

THE FAILURE to ensure that more than about 40 per cent of 16-year-olds remain in full-time education is the single most obvious flaw in Britain's education system. Every European Community country except Greece does better than this – and most do much better. The US and Pacific Rim economies such as Japan and South Korea manage to persuade 80 per cent to 90 per cent of the age group to stay on. Yet although education policy is now vigorously debated, attention has focused almost exclusively on education for 5 to 16-year-olds, and the universities. The stage in between has been largely ignored.

Mr Kenneth Baker, the Education Secretary, is at last attempting to redress the balance. In a speech last week, he put the case for much higher participation rates for 16-year-olds. The time has come, he said, to ensure that everyone up to the age of 19 receives some systematic education or training. This is certainly an admirable objective: Britain is most unlikely to remain a leading industrial nation if it fails to match the investment in human capital already undertaken in competitor countries, particularly in the Far East. But rousing speeches alone will not help matters.

Raising the numbers

Participation rates could be raised in one of two ways: by increasing attendance in sixth forms and colleges of further education or by expanding off-the-job programmes such as the Youth Training Scheme. The latter option may seem attractive to ministers: YTS-type schemes look industrially relevant and they offer some hope of sharing the costs of expansion with private sector employers. Some expansion of rigorous, employer-based training for 16 to 18-year-olds would be desirable. But much greater emphasis should be placed on raising the numbers who remain in full-time education. If 9 out of 10 Japanese children in this age group can benefit from full-time study, the same ought to be true in the UK. Specific industrial training can always be added later.

But how can teenagers be persuaded to remain in the classroom, particularly when demographic trends are encouraging employers to offer ever higher wages for 16-year-olds? Part of the answer must lie in curriculum changes and new forms of assessment. Mr Baker cannot afford to leave sixth-form education unreformed. The present menu consists of A levels (for those who hope to go to university) and a ragbag of less academic options such as BTech, City and Guilds and various exams sponsored by the National Council for Vocational Qualifications. A levels, even if bolstered by a AS level, represent too specialised an education for most 16 to 18-year-olds. The other exams are inconsistent with each other and are neither understood nor highly valued by many employers.

Increasing motivation

How can the mess be sorted out? One attractive option would be to extend the national curriculum to age 18, but to introduce a vocational fork at 14 – the age at which many non-academic youngsters get restive. Children, whether academically or vocationally oriented, would gain qualifications from a single source, reducing confusion among employers about the status of exams. All would study a broad range of courses. And if assessment concentrated on measuring positive achievements, rather than pinpointing inadequacies, motivation would be increased.

But curriculum reform alone is unlikely to transform attitudes. Schools need to inculcate a much better appreciation of the financial return on further education, especially among parents in the lower socio-economic groups. There may also be a case for looking again at modest educational maintenance awards for children from poorer families. At present YTS allowances give them a strong incentive to leave school for immediate industrial, but in many instances this may represent a waste of high academic talent.

Raising staying-on rates for 16-year-olds ought to be the first priority in future educational policy. Success will do more to raise overall educational standards than any amount of tinkering with the universities.

Holding Nato together

MR JAMES BAKER, the new US Secretary of State, has been given an early taste of the complicated task facing the Bush Administration as it prepares for Nato's 40th anniversary summit at the end of May. Mr Baker has impressed his hosts during his "get-acquainted" tour of the capitals of America's 15 Nato allies with his pledge that Washington will go out of its way to conduct "true consultations" with its partners before decisions are taken. He has been less successful, however, in smoothing the way to a solution of the most substantial issue with which Nato is grappling at the moment – the modernisation (or not) of its short-range nuclear missiles.

The public debate on this has not yet reached the proportions of the dispute over the deployment of intermediate nuclear weapons (INF) in Western Europe at the beginning of the decade. But it could well gather force over the next year or two, given the great sensitivity of German public opinion on the question of nuclear weapons which, because of their short range, would be used almost entirely on German territory.

Maintaining credibility

The US and Britain, more cautious than West Germany about recent political developments in the Soviet Union and Mr Gorbachev's arms control initiatives, insist that Nato must update its remaining nuclear weapons in Europe to maintain the credibility of its flexible response strategy. Short-range nuclear missiles now provide the only intermediate stage between conventional forces and strategic missiles. They are thus deemed to serve the purpose of slowing down the escalation of a conflict, as well as protecting Nato's conventional forces, still greatly outnumbered by those of the Warsaw Pact.

Mr Kohl, however, cannot afford to look at the problem in such pure strategic terms. His party has just suffered a severe electoral setback in Berlin, after a succession of similar reverses in other regions. With a general election due at the end of 1990, Mr Kohl is obliged to take account of the views of an electorate which, if public opinion polls are to be believed, is overwhelmingly opposed to the stationing of nuclear weapons on West German soil. In addition, Mr Hans-Dietrich Genscher, the foreign minister and representative of the smaller German coalition party, is the chief advocate of a *rapprochement* with the Soviet Union and the other Eastern European countries. Both he and Mr Kohl consider that an early decision to update short-range nuclear weapons would be sending "the wrong signals" to Moscow on the eve of new conventional forces talks.

Position of strength

That view is almost certainly incorrect. Past experience has shown that the best arms control agreements, such as last year's INF treaty, are negotiated by the West from a position of strength. But whatever the rights or wrongs of the analysis, the US and Britain are obliged to take note of the German position, particularly since it seems to be backed by other Nato members such as Denmark and Norway.

An interim compromise should not be impossible to find. To take account of Bonn's position that a final decision on producing and deploying a short-range Lance follow-on missile need not be taken for at least two years, the Nato summit could confine itself to taking no more than a decision in principle for the moment. This would at least allow the US Congress to approve the funding of the project and preserve the West's bargaining position in forthcoming conventional arms negotiations, pending a definitive decision after the German election is over.

Such a procedure would not, probably, allow the "comprehensive arms control concept," which Nato is presently drawing up, to spell out clearly whether the ultimate aim of the Alliance is to conserve or eliminate short-range nuclear weapons – the so-called "third zero option." But it would not be the first time that Nato had to delay making an important long-term policy choice. It is better to do things piecemeal than to provoke a full-scale crisis within the Alliance which might take many months to heal.

Andrew Gowers and Andrew Whitley consider the viability of a Palestinian state

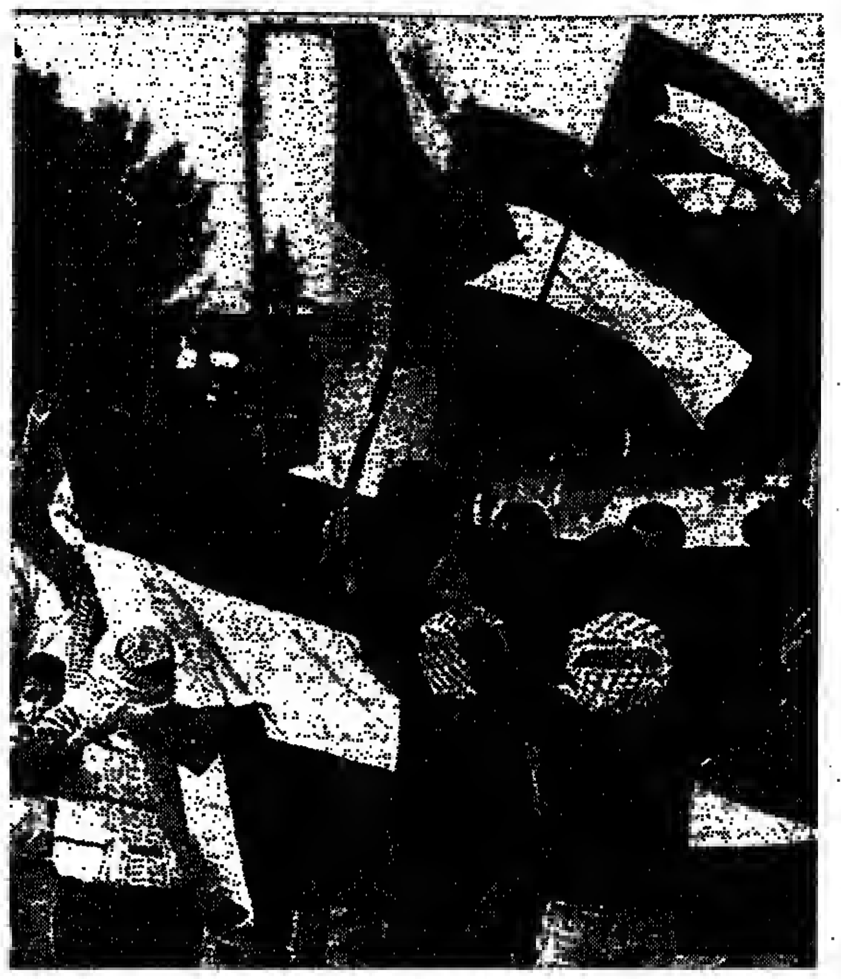
A people in search of a country

"The Palestine National Council proclaims, in the name of God and the Palestinian Arab people, the establishment of the State of Palestine on our Palestinian land, with the Holy City of Jerusalem as its capital."

Palestinian declaration of independence, November 15 1988, Algiers

"There will never be a Palestinian state. There is no power on earth that can force us to accept it. The Government of Israel is not susceptible to pressure of any kind."

Yitzhak Shamir, Israeli Prime Minister, February 5 1989, Tel Aviv



Palestinians: marching for an independent state

There, in all their stark familiarity, are the opening positions of the two central players in any negotiations that may or may not take place to resolve the Arab-Israeli conflict.

But suspend your disbelief for a second. If negotiations are to occur, it seems clear that they will have to focus on the eventual establishment of some sort of Palestinian entity in the West Bank and Gaza Strip.

With Washington now officially talking to the PLO and the Soviet Union having outlined its own Middle East peace plan over the weekend, this is perhaps an opportune moment to pause and consider a question which will lie at the heart of any resumed "peace process." Could a Palestinian political entity – whether a sovereign state or a part of some other configuration – ever work?

Since its meeting last November in Algiers, the Palestine Liberation Organisation has been pursuing the goal of a mini-state alongside Israel with unprecedented *clarity*. Its putative state has no territory and no government but has been "recognised" by more than 90 countries.

Even the US, while opposing an independent Palestinian state, continues to accept that a solution can be found only through Israeli withdrawal from territories occupied during the 1967 war and through the accommodation of "legitimate Palestinian political rights," preferably in association with Jordan. That is not as far as it sometimes seems from the PLO's position, which is that the Palestinians, having secured their state, would decide of their own free will to build a confederal relationship with Jordan.

Mr Shamir – who in any case remains ideologically opposed to withdrawal from territories he considers an integral part of the land of Israel – appears not to have given the practicalities a moment's thought. Talk of a Palestinian state, he says, is simply part of the Arabs' long-standing plan to throw the Jews into the sea.

Israeli governments of both right and left have consistently argued that a Palestinian state would not be economically viable and might therefore become an incurably de-stabilising force – that as Mr Yitzhak Rabin put it when he was Prime Minister in 1974, there is simply no room for another country squeezed in between the river Jordan and the Mediterranean sea.

Conventional Western wisdom has it that the security issues *can* be satisfactorily addressed. Though they do not say so too loudly at this stage, most outside powers concluded long ago that any Palestinian entity would have to be demilitarised and that a settlement would have to be heavily policed by external guarantors.

But what of the economic questions underlying consideration of a settlement? Could the Palestinians hope to establish a sustainable economy for their proposed state in the West Bank and Gaza, and could neighbouring Israel and Jordan live with it? Here the answers are a good deal cloudier.

It is not a matter simply of adding up the numbers and measuring the proposed state of Palestine against some magic formula of "economic viability." Such a concept certainly cannot be based purely on such considerations as natural resources, size or inherent capacity for economic growth independent of foreign aid: if it were, a striking number of countries, including Israel and Jordan, could scarcely lay claim to viability.

The West Bank and Gaza are just as poorly-off as either on paper. The West Bank, much the larger of the territories, is smaller than the American state of Delaware.

But Mr Ibrahim Mattar, a Palestinian economist temporarily based in California, points out that the territories have managed potentially self-sustaining rates of growth in the past – notably with an agricultural mini-boom in the early 1970s. A Palestinian entity there could command significant reserves of skilled manpower, and the entrepreneurial and investment resources of Palestinians in the diaspora. Its farm sector has something of a comparative advantage in the Arab world. Given sufficient investment and goodwill from the international community, it might be able to build up more of an industrial base, perhaps based initially on processing of agricultural produce and construction materials.

But the essential point, in the words of Professor Elias Tuma of the University of California at Davis who has conducted detailed studies of the viability question, is that "the proliferation of small states is political first and social and economic second."

Not the least of the political imponderables concerns the proposed state's borders. Even if Israel can resolve its internal differences about the occupied territories, it is unlikely ever to agree to complete withdrawal to its pre-1967 frontiers. The result, going by various plans advanced by Labour politicians over the years, may be something rather less than a unitary state linking the West Bank and Gaza through a trade corridor.

Jerusalem presents another major problem. Israeli insistence on retaining full control of the holy city as its indivisible capital – which seems unshakeable – would deprive the Palestinians of the economic and political centre for their proposed state.

The discussion is also complicated by two key facts:

- Historically, the area has never been an independent economic unit, or even a *dominant* part of a larger body. From Roman times through the centuries of Ottoman rule to that of Britain, Jordan and now Israel, it has always been a dependent economy.

- The economic fortunes of the West Bank and Gaza have in a whole host of ways become closely intertwined with those of Israel during the 21 years of occupation – more closely integrated than they were with any of the previous rulers. The 15-month old Palestinian uprising may have begun a process of disentanglement between Israel and the territories, but nearly 100,000 Palestinian workers still go to work across the "green line" in Israel; the territories remain a captive market for Israeli goods; and Israeli manufacturers, while scarcely investing in the territories, benefit from subcontracting some of their work to cheap-labour operations there.

Even if a Palestinian entity can eventually be established in a large part of the West Bank and Gaza, these observations will have an important bearing on its prospects. In the first place, the history of foreign domination and instability means that the territories have long been starved of development capital. They have no financial system to speak of, and wealthy Palestinian inhabitants have tended to hoard cash, to use it in real *estate transactions* or to invest it across the river in Jordan. Although agriculture improved significantly in the early years of Israeli rule, industry has been sorely neglected, still accounting for only 9 per cent of gross domestic product. Major industrial projects have been systematically blocked by the occupation authorities, keen to prevent the emergence of economic symbols of Palestinian identity.

The upshot is that a huge investment effort would be needed to get industry in the West Bank and Gaza moving. The new entity's initial tax base is likely to be small, and the West and the Arab states are well aware that they would have to dig deep into their pockets to finance any eventual settlement.

Second, there must be a question mark over precisely which Palestinians would choose to take up residence in the new entity. The pattern of emigration of the most active and ambitious part of the local population – to work in the West or the wealthy Gulf states – is deeply ingrained. Will the best and brightest return permanently to Palestine, where levels of taxation would likely be high by comparison, say, with the Gulf or the US, and the opportunities for themselves and their children limited?

On the other hand, the "right of return" of refugees and others in the diaspora remains a cornerstone of Palestinian demands for a settlement. There is therefore a risk that – as happened with much Jewish migration to Israel from the Arab world – a large proportion of the returnees would be the poorest Palestinians, adding to the burden on the limited resources of a new state which would also have to find ways of accommodating the inhabitants of existing refugee camps within the territories.

Third, there is the problem of reorganising a future Palestinian entity's economic relations with Israel. As Ms Vivian Bull, a US academic, argued in one of the first books to examine these issues in detail*, "political independence is meaningless without economic independence." Yet true economic independence will seem a distant goal so long as large numbers of Palestinian workers are lured to menial jobs in Israel and so long as Israeli goods enjoy privileged access to the West Bank and Gaza without a full range of reciprocal benefits for the occupied territories. Conversely, altering the terms of trade and labour in Palestine's favour would bring distinct disadvantages to certain sectors of Israeli business.

Population projections are a key to any calculations of viability. Excluding the administrative district of East Jerusalem, the present population of the West Bank and Gaza Strip is estimated by the West Bank Data Base Project, a Jerusalem-based research unit, at 1.7m. The natural growth rate of over 2.5 per cent per year is high, and it is reasonable to assume would remain so, or even accelerate, after independence. Add to that a figure of perhaps as many as 800,000 returnees, possibly some Israeli Arabs, and the population of an independent Palestine could easily have doubled by the year 2000.

Under these circumstances, the pressure on available resources, notably land for housing and water, would be enormous. Conventional water resources in the Gaza Strip are already exhausted, according to the UN Development Programme. Expensive alternative sources such as desalination plants may therefore be needed, raising the cost of agricultural production to prohibitive or at least uncompetitive levels. In the West Bank the steady encroachment of housing on to valuable arable land would have much the same effect.

According to Mr Hisham Awatani, a leading agricultural economist, Palestinian farmers in the West Bank have already practically reached the limits of cultivation possible within existing natural and economic constraints.

Those who have given the issue serious consideration agree on one thing: the Palestinian entity's chances would depend critically on its ability to generate sufficient exports to finance its heavy import bill. But here, too, it will not be plain sailing, if only because in developing export industries, the Palestinians could face problems of competition with Israel or Jordan, or more likely both.

The territories already run a trade surplus with Jordan, but a deficit with Israel. With strong assistance from the EC, they are already making efforts to export farm produce directly – rather than through the Israeli marketing board Agrexco – to Europe. Given political will on both sides, there is considerable mileage in this, especially if the Palestinians are able to replace their current crops with more exotic, higher-value products for export. But these are precisely the markets in which Israel has carved itself – and is struggling to retain – a niche.

In industry, the problem could be more acute. If Gaza, for example, were to establish local industries, its lower cost products would inevitably take Israeli business away from Israeli manufacturers. Its workforce would partly need to be recruited from among Palestinians working in Israel.

"The establishment of a sovereign state with control over its own terms of trade, the hallmark of independence, would be seen as a direct threat to Israeli manufacturers' own economic interests," says Mr Meron Benvenisti, head of the West Bank data project.

The overriding need for an economic outlet is one reason why the PLO continues to emphasise its desire for "confederal relations" with Jordan, the West Bank's point of access to the Arab world. Given the territories' interdependence with Israel, some Israeli politicians argue that the most logical economic solution would be the establishment of some sort of Benelux arrangement between Israel, Jordan and the occupied territories. It is worth remembering that the UN's 1947 plan for Palestine called for its political partition into two states but *economic union* between them. In present circumstances, that goal of harmonious co-existence can only appear a distant dream.

**The West Bank – Is It Viable? By V.A. Bull, Drew University, 1975.*

OBSERVER

Nostalgia in Budapest

■ For the past few weeks, thousands of young and old Hungarians have been queueing outside a cinema in Budapest to see a film called By the Grace of God. It is a documentary, made by the Hungarian director, Peter Bokor, about Otto von Habsburg, son of the late Kaiser. Many Hungarians are impressed, if not mesmerised, by the story.

Habsburg is now an elegant, and rather active, 76-year-old. The film ranges from shots of Hungary before the First World War to some of his recent speeches in the European Parliament where he expounds on the kind of Europe to which Hungarians would like to belong.

They also delight in the way he speaks an almost forgotten Hungarian, which in the opinion of the older generation, is "aristocratic" in its accent and careful use of vocabulary. (He has a similarly winning way with the German language.) By the Grace of God thus provides a sense of historical continuity for a nation obsessed about its identity and past.

But Habsburg is not sticking to the screen. As a member of the European Parliament, he visited Hungary for the first time last year and Hungarian television broadcast an interview with him. He is returning to Budapest shortly, though not to make royalist claims, in which he has little interest. He is a kind of European federalist.

He has been invited to attend the founding ceremony of the Hungarian Christian Democrats, a new political movement which hopes to stand in the next government elections due next year as part of the move to a multi-party system. Those present, and indeed one of the main forces behind the new movement, will include the cousin of Count Miklos Karolyi, President of the Hungarian Republic in 1919.

The sense of nostalgia for, and revival revival of interest in, Hungary's pre-war political traditions extends to the publishing houses. The bookshops are full of books about the Habsburg period, the relations between Budapest and Vienna in the 19th century – when Hungary managed to obtain a wide degree of autonomy from Vienna – and Hungary's old cultural and political ties with Europe.

To stress this sense of continuity, as if to suggest that the past 40 years of communist rule has been an aberration, a commission has been set up to find a new coat of arms. The consensus is that it is time to get rid of the present insignia which consists of the Hungarian red, white and green tricolour, topped by the communist red star and surrounded by a golden wreath of corn.

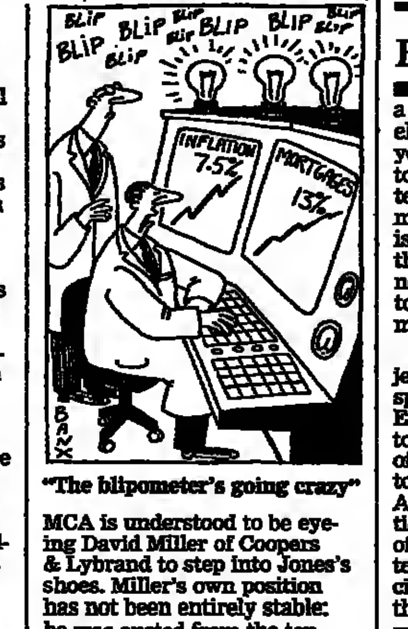
The experts on the commission say that the red star should be replaced with the insignia of the Holy Crown, worn by Istvan (1000-1038), Hungary's first Christian King.

Business jinx

■ The Management Consultants Association is having a bit of a problem with its presidents. Last month its president-to-be for 1990, Gareth Jones of Ernst & Whinney, resigned unexpectedly from the consultancy business.

A former head of Booz Allen & Hamilton in London, Jones was known within Ernst as "the Welsh wizard," apparently in recognition of his ability to conjure up a consultancy business from nothing. (Ernst missed the boat at the start of the 1980s when the management consultancy market sky rocketed and is still struggling to catch up).

Undaunted by this loss, the



"The blipometer's going crazy"

MCA is understood to be eyeing David Miller of Coopers & Lybrand to step into Jones's shoes. Miller's own position has not been entirely stable: he was ousted from the top consulting job at Coopers a year ago. Bu he remains a management consultant and is therefore eligible for the job.

There is more. It emerged last week that the MCA's current president, David Morris, is about to be removed from his position as head of management consultancy at Peat Marwick McLintock, the country's largest accountancy firm – another blow to the MCA's prestige.

This all looks rather unfortunate, and demands further investigation. What has happened to previous MCA presidents? The career of last year's incumbent, Jim Donaldson of PE Inbucon, is reliably understood to remain unscathed.

But what of his predecessor, Richard Owen of Touche Ross? Like Jones, Morris and Miller, he no longer runs his firm's consultancy business; he has been replaced by Brian Pomeroy. Owen has been moved upstairs and is now chairman of Touche's consultancy firm. There appears to be a kind of jinx, which the MCA is unable to explain.

Enoch's island

■ "You are not speaking to a frustrated man," Enoch Powell said on Desert Island Discs yesterday, though he seemed to be saying it through gritted teeth. It is true that he is a much kinder, gentler man than is sometimes supposed, yet there is one facet of him that never goes away: the refusal to admit that he has ever been mistaken about anything.

There are at least three subjects on which he has been spectacularly wrong. One is Europe, on which he continues to oppose British membership of the Community and claims to be still winning support. Another is race and immigration and the famous "rivers of blood" speech. He said yesterday that he still regards a civil war as the prospect. A third was Northern Ireland where he wanted union with Britain and intellectually intimidated other Unionist leaders from going for different solutions.

There was one touch of humility. He said that he had hoped Michael Foot would have been a very good leader of the Labour Party, but was not. Foot had expressed the same hope about Powell leading the Tories, but perhaps, said Powell, Foot would have been proved wrong as well.

For the records: four Wagner, three Beethoven and one Haydn (from The Creation). That combination must be a record in itself.

Distinction

■ Britain is "the only place in the world," says Jackie Mason, the New York comic now at the London Playhouse Theatre, "where eating is more dangerous than sex."

John Gapper begins a series on women's changing role in the workforce

Goodbye to the 'cornflake family'

The last few months have seen a stream of initiatives by British companies to attract and retain women. Midland Bank plans to set up 300 workplace nurseries; Boots, the retail chemist, is introducing job sharing for junior managers; Royal UK, an insurance company, is giving bonuses to mothers who return to work within a year.

The new demand for working women is becoming a familiar theme in speeches by employment ministers. The Employment Bill currently going through Parliament will remove restrictions on women working in industries such as mining and pottery. The Government says the bill will emancipate women and has used it to score points off a Labour Party which is rooted in male-dominated trade unions and suspicious of rising part-time women's employment.

"The idea that a real job is done by a sweating man in a smokestack industry whose life is governed by the sound of a factory hooter is just not on," says Mr Patrick Nicholls, junior employment minister. "Often when the figures are attacked, you hear 'It's only women's part-time work.' So what? A lot find that fits in with what they want to do."

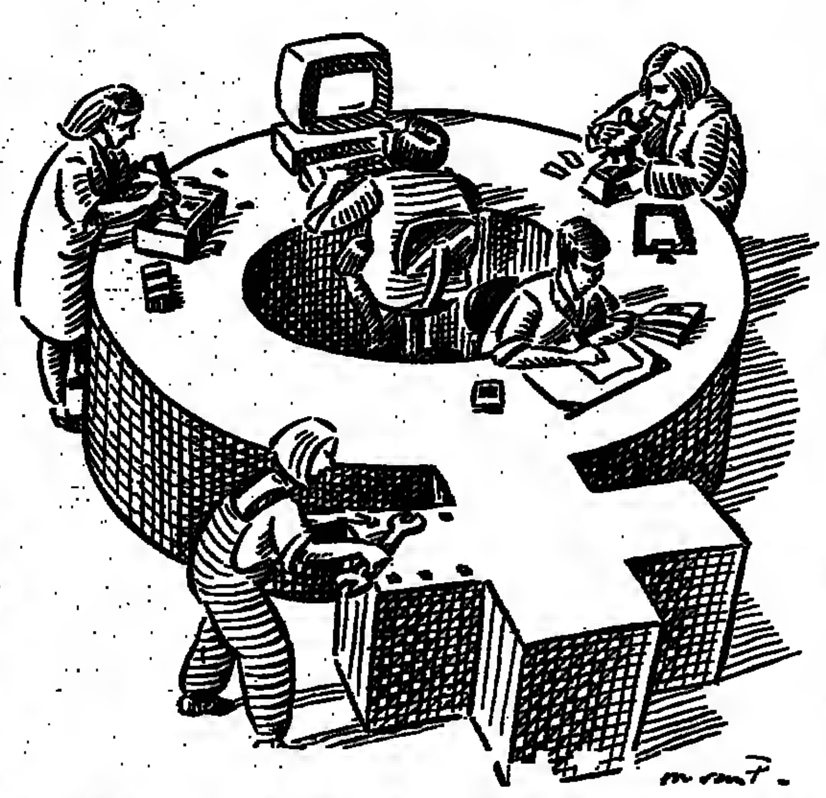
Rising female work participation presents its own political problems. A group of ministers discussing ways of encouraging working women is under pressure to let employers provide childcare for workers without it being taxed as an employee benefit. Britain's poor public provision of nursery care compared to the rest of Europe is becoming awkward.

The immediate reason for the renewed interest in working women is that economic growth has created skilled labour shortages, on top of the demographic fact of falling numbers of young people – the traditional source of recruits – up to 1995. Women are being cast in their traditional role as a reserve army of labour.

But something deeper is also happening. Not only do women form 80 per cent of the projected rise in the workforce up to 1995, but the long-term shift in Britain's industrial structure towards service employment favours them.

Two images persistent since the industrial revolution are now being transformed. One is of the archetypal worker: a male, unionised, full-time craft worker in a manufacturing company. The second is the self-image of many working women: peripheral workers easily displaced into domesticity, with only a fragile and temporary hold on paid employment.

The first image is falling victim to industrial change. The jobs considered "women's work" are growing at the expense of the old skills and industries reserved for men. White-collar work and part-time service employment is on the rise while skilled and semi-skilled manual jobs in heavy manufacturing are waning.



The effect on the sexual balance of employment has been marked. Women have taken most of the jobs created in Britain this decade. Of jobs created between June 1983 and March 1988, 740,000 went to women working part-time and 550,000 to women working full-time, while male part-timers grew by only 230,000 and male full-timers fell by 100,000.

Women are also coming to think of themselves once more as workers. Although women dominated industries such as brewing and textiles in Britain in the 17th century, there was a sharp decline in women's participation rates during the 19th century – in particular because of social hostility to married women taking paid employment.

Married women's participation rates in peacetime remained low until the 1950s, despite the acceptance of young women doing jobs such as nursing. Now, however, according to the Government survey Social Trends, only 45 per cent of working age women consider that women with children under the age of five ought not to work, compared to 78 per cent in 1965.

Some things have not changed. Although men may approve of women working, emancipation does not extend to domestic responsibilities. Housework is mostly still performed by women – in 88 per cent of households they do most washing and ironing, and in 72 per cent they do most cleaning. They also take far greater responsibility for child care.

Combined with the comparatively poor public provision of childcare for working mothers in Britain, the effect has been to push many women into part-time work. Sixty-five per cent of women workers are married, and 45 per cent work part-time. By comparison, in France, only 23 per cent of women workers were part-timers in 1986.

The need to attract women will require many employers to change both the terms on which they offer work, and the payments made for particular skills.

Ms Joanna Foster, who chairs the Equal Opportunities Commission, believes many companies suffer from organising work according to the needs of "the cornflake family" of television advertisements, with two children, a mother who stays at home and a working father. "Most women work part-time because it is the only way they can balance their lives," she says.

In an era of demand for working women, the manager unwilling to alter working patterns to suit women is likely to suffer from shortages of workers. The effect was seen in the Second World War when personnel managers had to introduce part-time working to reduce absenteeism among working mothers.

It will be in employers' interests to bind workers with inducements like workplace nurseries, or tailor working hours to suit them. Westminster Health Care, a company running nursing homes, has just opened a 30-place workplace crèche in Harrogate, North Yorkshire to attract back former nurses. Mr Pat Carter, managing director, describes the response as "staggering." It is now experimenting with shift patterns to allow women workers longer blocks of time at home.

The extension of part-time working into supervisory and managerial roles to allow the jobs to be performed by women is also spreading in retail companies. Marks and Spencer, a store chain in which 85 per cent of the workforce is female, is employing more part-time managers. J. Sainsbury, the supermarket group, has relaxed the requirement for managers to move between regions.

The same effect can be seen in the re-evaluation of working at home. Traditionally, homeworking has been confined to low-paid women workers prevented from going out to work by domestic responsibilities. Employers in industries such as textiles have exploited this group's vulnerability to depress wage rates below those paid in factories.

But there is now a growing number of skilled women who choose to work on home terminals for computer manufacturers such as ICL. Although these women often choose to work at home because of domestic responsibilities, their pattern of work is not forced upon them. ICL has just extended all employee benefits to its teleworkers.

Skill shortages are also likely to open better jobs to women. In wars, traditionally "male" jobs have been described in "female" terms to encourage women to take them. During the Second World War, welding – an archetypal male job – was compared by the Ministry of Labour to knitting as a natural female activity.

"Both require a small, fairly complex manipulative movement which is repeated many times, combined with a kind of subconscious concentration at which women excel," it said. Industries like construction, in which there has been little attempt to recruit women despite skilled labour shortages, may be forced to repeat this leap of imagination.

Furthermore, many traditional craft skills used in manufacturing companies and performed by men are being broken down by new technology and moves to "multi-skilling." At the same time, the skills of service workers such as snpermarket check-out operators are being recognised for the first time in customer care training schemes.

For employers, unions and the Government alike, these embryonic changes present challenges. Companies will have to change employment policies to attract women, unions will have to alter their priorities to suit them, and the Government will have to be seen to be responding sensibly to the growth of women's work.

Companies are already recognising some of the challenges, according to Mr Rod Thomas, employment affairs director of the Confederation of British Industry. But many of the initiatives such as career break schemes have so far been aimed only at senior staff with clearly valuable skills.

Unions whosa traditions lie in building up and defending craft demarcations and male pay rates face a painful adjustment. They recognise that they have to recruit women in service industries to stem membership losses. But they have not yet come to terms with the shift in bargaining priorities – towards, say, cervical cancer screening and flexible working hours – that this implies.

For the Government, removing restrictions on women working under the Employment Bill sits more easily with its political philosophy than establishing a social framework to help women workers. According to Mr Nicholls, state provision of child care similar to that by Scandinavian countries is "not the way we do things in this country."

But a range of existing state responsibilities, such as nursery education for the under-fives and the framework of care for the growing number of elderly people, already have an impact on women's work participation rates. It will be difficult in the next decade for the Government to ignore the effect on employment of social provision.

This series will continue this week on the Employment page.

LOMBARD

Karl-Otto should be in the lead

By Samuel Brittan

IF international monetary co-operation means anything at all, it is that countries must act differently from the way in which they would otherwise do – if only in timing or degree. In present circumstances this means that Mr Karl-Otto Pöhl, the Bundesbank president, and his colleagues should move out ahead of the US Federal Reserva in tightening monetary policy.

But, on the other side of the Atlantic, the Fed chairman, Mr Alan Greenspan, should be a little more cautious in tightening monetary policy than he would be if he was following only domestic guidelines and did not care about the dollar.

The reason is the unwelcome rise in the dollar at the beginning of this year. Although the US currency has come down from its recent high point, it is still well above both its 1988 average and its level at the end of 1988. So long as the dollar remains at the upper end of its informal range, the Fed has good reason – apart from pleasing President Bush – for waiting before tightening further.

Of course, all the central banks involved would like a reduction in the US budget deficit sufficient to take some of the load off monetary policy. Yet they know that any improvement is likely to be gradual. In the meantime, they have no option but to take the US fiscal position as given and to concentrate on their own primary concern, namely monetary policy.

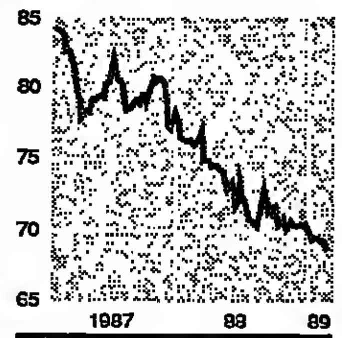
If the Plaza and Louvre accords and their successors have any valne, it must be that at least some weight is given to the exchange rate in determining monetary policy.

Given the international worries on the inflation front and the move towards dearer money by most major countries, the question for the Fed is when rather than whether to move further. In other words, US monetary policy should be tightened as soon as the markets start worrying about the so-called fundamentals and the dollar comes under downward pressure – a shift which may not be very far away.

West Germany has independent reasons for wanting to tighten policy. The 2½ per cent increase in consumer prices registered by the Federal Republic in the year to Jenuary may seem enviably low to some countries – although not to Japan which has recorded just half a per cent. In the US inflation has been running at just under 4½ per cent and the Fed fears that it will rise to 6 per ceot by the end of this year.

The West German Finance Minister, Gerhard Stoltenberg, is nevertheless right in refusing to dismiss the German inflation figures, which represent a sobstantial increase from near zero. He could have tried to explain the increase away by the consumer tax increase for which he was responsible; but be realises that it is only the hypersensitivity shown on the inflation front which has enabled his country to avoid the draconian fiscal and monetary changes which have been necessary, for instance, in Britain.

The falling D-Mark



Moreover, the weakness of the D-Mark could have inflationary implications for West Germany if ignored. As the chart shows, the mark has been independently weak and has not merely mirrored the dollar. After fluctuating with no clear trend against the yen, the mark began to slide against it early in 1987 and has now fallen by some 15 to 20 per cent over two years. West Germany has its own good reasons for wanting to stop the decline of the mark; and the sooner the Bundesbank moves, the more freedom of manoeuvre the Fed will have – which will also be to the international good.

LETTERS

Early bird bargains

From Professor T.F. Daveney.

Sir, The claim that credit-card holders who pay off their bills each month are "effectively subsidised" by those who do not, is a ridiculous charge. The implication is that prompt settlers enjoy an unfair advantage at the expense of late payers, and in justice this inequality should be eliminated.

But these matters are settled in the market place, or by government regulation. There is no need suddenly to unearth a moral issue regarding an underclass of borrowers, mercilessly exploited by grabbers of free credit.

After all, other things being equal, who doesn't seek bargains at sales, free banking, or the highest income on investments? Somebody pays.

T.F. Daveney,
The Old Chapel,
Whiddon Down,
Okehampton, Devon

From Mr J.A. Redman.

Sir, I refer to your report (February 13) that Barclaycard is considering introducing charges for those who pay their balances in full within the stated credit period. I think that those who do must nail this iniquity before it gets too well established in the mythology of credit-card use.

Noticeably absent from credit-card companies' claims about the cost of credit is any justification for the rates of interest they charge to credit users; and the extent to which their costs are met by commissions charged to retailers – which are effectively recharged to all card users.

Now the card user is apparently to be charged for credit whether he or she takes it or not. Fortunately, this is likely to be counter-productive.

If the convenience of a single payment against a monthly statement is only to be available at some cost, there is every incentive for buyers to pay for individual purchases by cheque – now that the banks have been forced, through competition, to abandon the practice of charging customers for every cheque they write.

J.A. Redman,
18 Sandy Lodge Road,
Moor Park,
Rickmansworth, Hertfordshire

Shareholders come in all sizes

From Mr E.M. Sandland.

Sir, Some comment seems called for on the subjects of pre-emptive rights, City attitudes and wider share-ownership, given recent debate in which they have figured prominently.

Existing shareholders raise no objection when a third party purchases shares in their company, through the market provided by the Stock Exchange, from one of their number. There is no reason why they should. The transaction is a straightforward one, at market value; it has no effect on the value of the other shareholders' investments.

Now, if the company's management elects to create new shares and offers them to third parties, the reaction of existing shareholders will depend on what changes are implied for their voting position, and for the value of their investment. Consider the case of a small issue, in which the voting aspect is immaterial. Concentrating only on value, existing shareholders are likely to be acquiescent so long as the company receives the market price for these shares – that is, full value; their own relative stake in the company may have been diminished, but the company itself will be of greater value through the new money received, such that the value of their investment before the issue is the same as that following.

What is not acceptable to existing shareholders is the creation of new shares and their issue for cash to third parties at a discount to the market price.

This involves a transfer of value from existing shareholders to new shareholders. It is by the exercise of their pre-emptive rights that existing shareholders can prevent the dilution in value of their investment which can occur if some part of that value is offered to third parties as an inducement to take up newly issued shares (in practice, they allow some freedom of action to management by allowing small issues outside the pre-emption net).

Shareholders come in all shapes and sizes. I am constantly aware (as the chief investment manager of a mutual life insurance office) that we must protect the common interest of the many hundreds of thousands of individuals who are investing in ordinary shares through the collective means of a life fund. These individual policyholders and pensioners are the people who will suffer unless their fund manager representatives exercise vigilance on their behalf. The failure to defend pre-emptive rights would, in my view, be a clear dereliction of a fund manager's duty; the unanimity of view on this subject shown by institutional investors comes as no surprise to me.

Finally, I must emphasise that, as an institutional investor, the Norwich Union is in no way opposed to the spread of wider share-ownership, generally understood as an increase in direct rather than collective shareholdings. It is not pre-emption rights which stand in the way of such a movement – indeed, they scarcely seem to be relevant. The main obstacles seem to me to be the heavy cost of acquiring small parcels of shares in the open market and the absence of any alternative distribution system which would place shares in the hands of individuals, for full value, at a realistically low cost.

Add to that the tax implications which can arise if an individual wants to sell some or all of his entitlement in a rights issue, and you have a fruitful field for action.

E.M. Sandland,
Norwich Union Fund Managers,
PO Box 4,
Surrey Street, Norwich.

'Consumers do not see borrowing as anti-saving'

From Mr David Fleming.

Sir, There is another way of looking at savings, involving two departures from the standard treatment.

To start with, we could note the possibility that there are very large errors in the measurement of aggregate personal incomes. As recent papers from Phillips & Drew and Morgan Grenfell show, these errors have the effect of underestimating incomes, and thus underestimating savings.

The second departure is more fundamental. The savings ratio is calculated as a residual of personal incomes and personal expenditure. If borrowing rises, as it has throughout the 1980s, the expenditure which occurs as a result of the borrowing is measured, but the initial increase in consumers' budgets is not added into personal disposable incomes. Therefore borrowing depresses the savings ratio.

But that does not mean that the proportions to which consumers deploy their total budget, including borrowing, change as a result of their borrowing. Indeed, consumers' savings as a proportion of their total budget have remained strikingly constant.

This can be shown as follows. First, a measure for gross savings is derived from consumer expenditure on capital account plus total transactions in financial assets; then income is expressed as personal disposable income plus the balancing item on the personal sector capital account, plus total transactions in financial liabilities. The balancing item is added to the income side of the account on the assumption that it corrects the error in the measurement of incomes.

(The source for all these series is United Kingdom National Accounts.)

Gross savings expressed as a percentage of adjusted incomes gives a gross savings ratio as follows:

1980:	22.2%	1984:	21.0%
1981:	21.6%	1985:	21.8%
1982:	21.4%	1986:	22.4%
1983:	21.2%	1987:	23.0%

At first sight there seems to be a technical problem with this measure, in that it treats savings as gross, whereas the conventional measure treats them as net of borrowing. There is a logic to the latter treatment, but it is not how consumers think: they do not view borrowing as "anti-saving." Borrowing is part of their total budget, to be deployed as if it were income.

Given this refusal to discriminate between income and new borrowing as two components of their budgets, consumers' behaviour turns out to be very consistent indeed. The gross savings ratio could be a better guide to demand management.

David Fleming,
Cadogan Management,
53-54 Haymarket, SW1

FINANCIAL TIMES
Monday February 20 1989

Janet Bush on Wall Street

Resisting blue-chip euphoria

IT MUST be pretty soul destroying for fund managers who genuinely care about making money for their clients that individual investors too often get in the market when it has already risen and get out when it has already fallen.

Anyone who took the eminently sensible advice (in retrospect) to buy immediately after the October 1987 crash would have recouped their losses and be in the money again.

Now that every technical indicator suggests that the market is fairly valued, investors may be well advised not to get caught up in the current blue chip euphoria.

After a year when equity mutual funds found it extremely tough to kindle any interest among investors and the Standard & Poor's 500 had a total return of 16.5 per cent, January saw a sharp rise in the stock market and a concomitant increase in the number of enquiries to mutual fund managers.

That may be as good a contrary indicator as anything. Drexel Burnham Lambert's equity research team recommended their clients get into the equity market big as soon as the crash happened and, for the first time since October 1987, are advising investors to sell on market spikes.

In a fairly valued overall market, selectivity becomes the buzzword. Unless you believe that the equity market is totally efficient, there are always companies whose stock price does not fairly represent their business.

Mr David Mills manages the Boston Co's new Contrarian Fund, launched last October, which aims for long-term growth by investing primarily in what are believed to be undervalued stocks. The fund seeks as a priority to minimise losses rather than maximise gains. When selecting stocks, Mr Mills looks for four characteristics:

- Low price/earnings ratios and high yields;
- Low price to cash flow ratios;
- Stock trading at a 50 per cent or more discount to a company's break-up value;
- American companies currently trading below normal values for some specific reason.

Looking for undervalued stocks is not a new idea and has been well and truly tested and the technique has consistently led to above-average gains.

Nevertheless, selling the idea of stocks which are doing poorly is often hard going. Investors feel there is something more risky about an undervalued, often relatively unknown company, than a well-known, popular and therefore fairly or overvalued blue chip.

"It is like someone who finds a Rolex watch selling in a pawnshop in Texas for half the price he could buy it for in New York," Mr Mills says.

"There's nothing wrong with the watch. It is just that Texas has been having problems, there is a cash squeeze and people have been selling their Rolexes."

Take two examples of stocks Mr Mills likes. One is First American Financial Corp. which sells mortgage title insurance which ensures that someone who takes out a mortgage actually owns the titles to the property.

It has a 30 per cent market share, is sitting on $21.1 for every share in cash with a share price of only $33 and has lower than average debt.

All the important ratios show the stock is underpriced. It is trading at only 1.12 times book value, compared with an average of two times book, its p/e ratio is around the average of 12, but Mr Mills reckons the company's p/e is overstated because of a 3 per cent tax break on its loss experience, and its return on equity over the past five years has been an average 22.7 per cent, compared with an average 16 per cent with S & P 500 companies.

Another example is Russ Berrie & Co which has a valuable distribution franchise supplying airport gift shops, for example, with knick knacks.

The company's performance has been very sound with a return on equity well above average for the past five years and almost no debt.

Of key importance, too, is the fact that this business is not cyclical – people will always be buying last-minute gifts at airports where there is often so much time to waste.

"You know if you don't sell enough stuffed rabbits this Easter, you can sell them next Easter," says Mr Mills.

So why not think stuffed bunnies instead of IBM computers?

Afghanistan moves closer to full military rule

By Robin Pauley, Asia Editor, in London

AFGHANISTAN moved towards military rule yesterday with the declaration of a state of emergency and the announcement that a supreme military council headed by President Najibullah is to be formed within days to co-ordinate military, economic and political activities, including the war against the Mujahideen resistance.

Tanks, troops, rocket launchers and armoured personnel carriers appeared on the streets of Kabul yesterday in greater numbers than usual immediately after the declaration of the emergency by President Najibullah, the beleaguered head of the Communist regime in Afghanistan.

President Najibullah also sacked a quarter of his cabinet yesterday, bringing in members of his Communist People's Democratic Party of Afghanistan to replace seven non-party members introduced during the past two years in an attempt to produce a more broad-based government.

"We wanted to send a signal to the counter-revolutionaries who think that the party is finished. We are more united, more determined, and stronger than ever," said a party official. However, irrespective of the external pressures on the party, the PDPA is itself seriously split internally and it is not yet clear how the reshuffle changes the balance between President Najibullah's Parcham wing and the Khalqi faction.

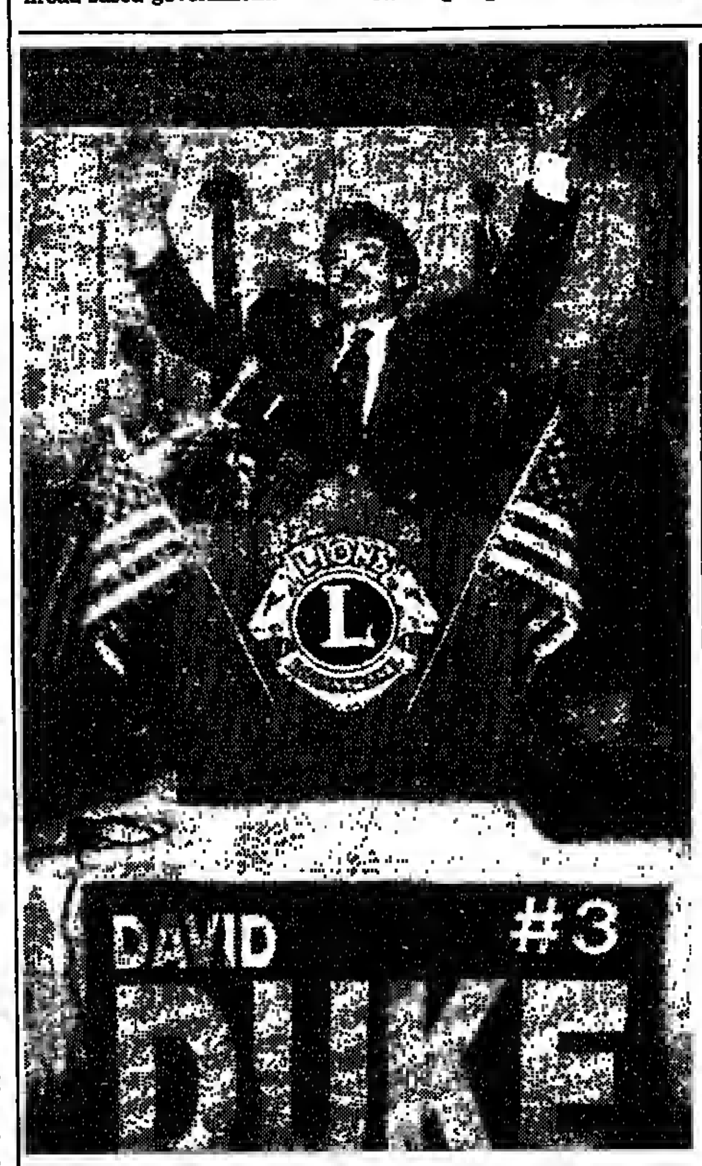
In Pakistan the shura or religious consultative council formed by Afghan resistance leaders to form an alternative government to the Kabul regime collapsed again yesterday when more than half of the 440 delegates still at the meeting walked out.

Mr Mohammad Nabi Amani, a Foreign Ministry spokesman in Kabul, said the state of emergency was imposed because of attempts by the Mujahideen resistance to frighten people in Kabul by circulating night letters warning of rocket attacks. Since the Soviet occupation of Afghanistan ended on Wednesday the Mujahideen have launched daily attacks against Kabul and several other cities.

Mr Amani warned foreign journalists that under the state of emergency troops would have the right to open fire if they believed reporters or photographers were "behaving suspiciously."

The state of emergency suspends a series of constitutional rights, including protection against confiscation of property and searches of property, freedom of expression, freedom of assembly and petition, freedom from compulsory labour, privacy of correspondence and telephone conversations, and foreign travel. It also hands over the powers of the National Assembly to the cabinet.

The emergency, which President Najibullah said would be "temporary", can last for up to three months under the constitution.



DAVID DUKE, former leader of the white-supremacist Ku Klux Klan, waves to supporters after his weekend election to the legislature in the Deep-South US state of Louisiana. Leaders of the state's Republican Party, deeply embarrassed by Mr Duke's last-minute switch to the party, yesterday said economic issues, and not racism, was responsible for his victory, reports Reuter from Louisiana. Mr Duke defeated long-time Republican activist John Treen despite the all-out opposition of President George Bush and former President Ronald Reagan in an attempt to avert the embarrassment that his white-power campaign brought to their party. "Taxes, that's the issue that killed us," state Republican chairman Billy Nungesser said. "This was not, by any means, a vote...for the Ku Klux Klan." He added, however, that Mr Duke "conned too many voters into believing he had left his past behind."

Trade war truce expected

Continued from Page 1

end the EC-US deadlock which has so far stymied the mid-term review of the Gatt world trade talks.

This deadlock centres on farm trade subsidies. Mr Clayton Yeutter presented the EC commissioners on Saturday with a new US position paper, but yesterday Mr Andriessen refused to comment on it until it had been studied in Brussels.

One further advance made in Washington, Mr Andriessen said, was procedural agreement on how to resolve another tit-for-tat trade dispute. This concerns the US complaint that American soya exports have heen unfairly squeezed out of Europe by excessive EC support of Community oil seeds output, and the Community counter to this that Washington has misused, for the past 34 years, a waiver to Gatt rules to keep some EC products out.

EC officials said the joint task force's main job will be to examine the technicalities of certifying hormone-free meat for the EC market. Texas has already offered such supplies if inspection can be arranged. The US has proposed that the Community accept meat that has not been treated with hormones within 60 days of shipment. Brussels has rejected this compromise.

But the US already has e special quota to supply 10,000 tonnes a year of high quality "Hilton beef." The EC appears amenable to increasing this quota – provided imports are hormone-free.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	16	61	Dubrovnik	S	13	55	Malta	S	17	63	Rhodes	S	14	57
Algiers	S	20	68	Edinburgh	F	06	43	Manchester	F	09	48	Rio de J'o	F	35	95
Amsterdam	C	15	59	Faro	S	19	66	Manila	F	33	91	Rome	F	16	61
Athens	C	11	52	Florence	C	14	57	Melbourne	F	20	68	Salzburg	R	08	46
Bahrain	C	21	70	Frankfurt	R	09	48	Mexico City	F	25	77	San Francisco	F	28	82
Bangkok	F	33	91	Funchal	C	18	64	Miami	C	25	77	Seoul	F	08	46
Barcelona	S	18	64	Geneva	R	11	52	Milan	S	11	52	Singapore	C	31	88
Beirut	C	16	61	Gibraltar	S	15	59	Montreal	C	-13	09	Stockholm	R	05	41
Belfast	C	05	41	Glasgow	S	06	43	Moscow	F	01	34	Strasbourg	-	—	—
Belgrade	C	12	54	Guernsey	R	10	50	Munich	C	12	54	Sydney	F	28	82
Berlin	R	10	50	Helsinki	C	00	32	Nairobi	F	24	75	Taipei	C	22	72
Biarritz	-	—	—	H. Kong	C	19	66	Naples	F	16	61	Tangier	S	18	64
Bombay	-	—	—	Innsbruck	C	06	43	Nassau	C	28	82	Tel Aviv	F	15	59
Bordeaux	-	—	—	Inverness	R	03	37	New Delhi	F	21	70	Tenerife	D	18	64
Brussels	C	11	52	Islamabad	F	10	50	New York	F	00	32	Tokyo	F	11	52
Budapest	R	02	36	Istanbul	F	10	50	Nice	-	—	—	Toronto	F	05	41
B. Aires	F	35	94	Jakarta	R	29	84	Nicosia	F	16	61	Tunis	S	18	64
Cairo	C	17	63	Jersey	R	10	50	Oporto	C	16	61	Valletta	S	21	70
Cape Town	S	30	86	Jo'burg	F	24	75	Oslo	F	01	34	Venice	Fg	04	39
Caracas	F	24	75	Lima	F	29	84	Paris	R	13	55	Vienna	R	11	52
Casablanca	F	17	63	Lisbon	F	20	68	Peking	C	05	41	Warsaw	F	04	39
Chicago	Sn	-2	28	London	C	13	55	Prague	C	10	50	Washington	F	-3	27
Cologne	R	13	55	Los Angeles	F	17	63	Reykjavik	Sn	-2	28	Zurich	C	10	50
Copenhagen	F	10	50	Luxembourg	C	11	52								
Corfu	S	15	59	Madrid	F	18	64								
Dallas	C	05	41	Majorca	S	20	68								
Dublin	R	07	45	Malaga	F	15	59								

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

UK plans radical air wave auction

By Hugo Dixon in London

RADICAL PROPOSALS for auctioning off Britain's air waves later this year are planned by the UK Government.

The air waves transmit television and radio programmes, mobile phone conversations and other radio-based services. They are also heavily used by the armed forces.

Selling the radio spectrum would be a dramatic example of the Government's determination to introduce market forces into British industry, and would have a major impact on telecommunications, broadcasting and defence policy. Officials believe the UK would be the first country in the world to take such a step.

The spectrum could be an important new source of revenue for the Treasury. Officials say that more than £1bn ($1.77bn) a year could be raised.

At present, civil servants decide what services the air waves should carry and which companies should provide them. The companies then pay a nominal fee to cover the costs of administration.

This system has been criticised for being bureaucratic, unfair and failing to make the best use of a valuable and scarce commodity. There have also been complaints that the companies which are allocated parts of the radio spectrum are being given a licence to print money, with the community receiving almost nothing in return.

The rapid development of new radio-based services over recent years, particularly in the field of mobile communications, underlies the Government's interest. There have often been problems in finding enough spectrum for a promising new service because air waves are overcrowded.

Auctioning the air waves to the highest bidder is seen by officials as the best way of ensuring that the spectrum is put to the most economic use. An auction would be "a lot more satisfactory, cleaner and quicker" than the present system, according to one official.

It would also mean that companies which failed to win licences to use parts of the spectrum would not be able to complain that they had been unfairly treated. If they did not put down enough money, it would be their fault, the official said.

The Johnsher Report, commissioned by the Department of Trade and Industry, recommended in early 1987 privatisation of the radio spectrum. It was thought that management of the spectrum would be delegated to private-sector "frequency planning organisations" (FPOs), which would then auction it off.

The proposals were shelved amid concerns that, if privatisation proceeded, the Government would lose control over key aspects of telecommunications and broadcasting policy. Officials were also worried that privatisation would make it harder to co-ordinate management of radio waves on an international basis.

DTI officials are working on alternative proposals with the aim of making an announcement this summer. The main option is understood to involve the DTI conducting the auction rather than the private sector, although the FPO idea has not been rejected.

Quake in Tokyo opens a week of tremors

By Ian Rodger in Tokyo

TOKYO was shaken by a moderately strong earthquake last night. It was perhaps a fitting way to start a week that promises to be filled with tremors of all sorts.

The week's main event is supposed to be the state funeral on Friday morning for Emperor Hirohito, who died aged 87 on January 7.

Yesterday, Mr Stane Dolanc, vice-president of Yugoslavia, became the first foreign dignitary to arrive for the funeral. By Thursday night, representatives from 153 countries and 17 international organisations, including US President George Bush and the Duke of Edinburgh, will fill Tokyo's hotels and embassy residences.

It now looks as if the various princes, presidents, dictators and demonstrators who will be vying with one another for attention at the funeral will also have to compete with the Recruit political financing scandal. In the past week, eight people were arrested for alleged bribery related offences, and more spectacular developments are expected this week.

Today's session of a Diet (parliament) budget committee is to be devoted to debating the scandal, and there are hints that the opposition will come up with new revelations to torment Mr Noboru Takeshita, the beleaguered Prime Minister.

Then, tomorrow, Mr Hiroshi Matsubara, the first man to be arrested in the Recruit scandal, goes on trial. The former Recruit Cosmos executive will plead guilty to charges of attempting to bribe an opposition member of the Diet so that he would moderate his inquiries into the Recruit group's activities.

Also tomorrow, the official protests against the Emperor's funeral are scheduled to begin. The Japan Socialist Party and the General Council of Trade Unions will hold a rally to demand the clear separation of state and religion. In all, more than 190 protest rallies are expected around the country as the week proceeds. A small, but vociferous, minority in Japan is offended that there will be a Shinto ceremony.

In response, an equally small, but equally vociferous, minority of nationalists will do their best to air their view that the Emperor's divine status, renounced under US pressure at the end of World War II, should be restored.

While these groups may cause some headaches for the police, a more serious threat is posed by the really radical leftwing groups, one of which succeeded three years ago in firing a rocket 4km towards the place where heads of government met at the Tokyo Economic Summit were meeting. Another group recently succeeded in bombing a Tokyo shrine dedicated to a war hero, apparently just to show that it could do so.

Then there are the problems generated by the large numbers of visiting dignitaries. For example, later this week, more than 290 flights of domestic airlines in and out of Tokyo will be cancelled to make way for the visitors' private aircraft. Scores of bilateral and multilateral meetings have had to be scheduled and timed. Mr Takeshita, for example, plans to have private meetings with 40 foreign guests.

However, the Japanese authorities are responding in a typically thorough way. More than 30,000 policemen have been put on duty in Tokyo, and the areas around the funeral site and procession route are subject to constant scrutiny. Near Haneda airport, sewers have been searched and some 2,000 manholes sealed with paint. All arrangements for the arrival of the dignataries and the funeral procession itself have been rehearsed, timed and reviewed, even to the installation of 253 temporary toilets along the procession route.

As of yesterday, however, the security measures were remarkably unobtrusiva, except for increased car checks and the occasional clatter of helicopters.

Nevertheless, all this is likely to change, and, as for the Japanese people themselves, their biggest concern appears to be the expected disruption to their daily lives. In a recent opinion survey, nearly three quarters of those interviewed said they would prefer regular television programming to the special funeral broadcasts. Video rental shops anticipate booming business.

Another Recruit executive arrested, Page 4.

THE LEX COLUMN

Stumping up for senior citizens

US companies have been hiding a flesh and blood liability of between $200bn and $2 trillion from their shareholders for so long that neither side seems equal to the task of exposing it. Under last week's draft proposals from the Financial Accounting Standards Board, companies have just three years to make full accounting provision for health benefits granted to their retired amployees. But most finance directors – and virtually all shareholders – are still working on the brave assumption that anything which might halve earnings and double gearing ratios could simply never be allowed to happen.

However, FASB is dead serious, and any modifications made to the draft are likely to be relatively minor. FASB clearly has right on its side: the obligations of companies to pay the future health bills of their employees are as real as obligations to pay pensions, only more difficult to quantify. The present treatment used by most companies – which accounts for costs only as the money goes out of the door – ignores that obligation, and in any case is becoming less adequate as health costs continue to rise and the population becomes more and more decrepit.

As the draft suggests, tha proper way of dealing with the liabilities is to estimate the present value of all future benefits and begin charging a pro-rata amount to earnings each year. More ticklish is how to account for liabilities notched up in the past. Tha purist would write all these off at the ontsat, but ae that could almost wipe out the capital of big US corporations with ageing workforces, FASB has compromised and suggested that these sums could be written off gradually over the next 15 years.

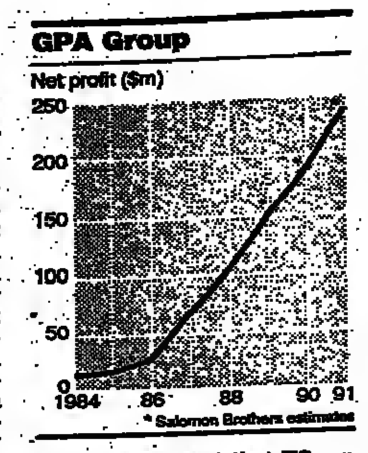
The chief objection raised against the proposals – apart from the havoc wrought on financial statements – is that the impossibility of estimating health costs in five, ten or twenty years' time makes a nonsense of the whole thing. This plainly will not do: liabilities do not cease to exist just because they are hard to quantify.

While nobody knows the exact financial impact, it will be worse for the smokestack and auto industries, where the benefits are best and tha proportion of retired employees highest. When it comes to putting numbers on the effects, most of the estimates so far seem to have been hatched in a spirit of panic rather than actuarial cool, based on the extraordinary fact that US corporations currently spend over 40 per cent of their total operating profit on health care. Even though all numbers are guesses, the more likely estimates seem closer to $200bn than $2 trillion; and by the time the scheme is introduced it could be much smaller still.

Indeed, since FASB started dropping heavy hints two years ago of what was to come, companies have already started to cut benefits. They now have three years in which to put tha squeeze on their employees in order to lessen the shock for their shareholders in 1992. That does not mean that the final effect on their accounts will be relatively slight; but it will almost certainly qualify the most painful accounting changes in memory.

Meanwhile, Wall Street should take note. Usually, accounting simply copies changes that have already happened in the world it describes, but this time the accountants are signalling necessary changes in behaviour. Until now investors, like the companies they own, hava behaved as if the liability did not exist. They should be grateful to the accountants for making the problem clear now, to avoid an even bigger shock later.

GPA Group



GPA Group

If UK financial services groups were to be awarded prizes for missed opportunities then the late Guinness Peat Group, the £136m rump of which is now known being hawked around the City to pay off its parent's bankers, would be top of the list. The combination of boardroom squabbles and serious financial problems meant that Guinness Peat had to pull out of Telerate, now capitalised at $1.4hn, just before its computerised trading information business took off. And only a few months ago GPG, as it is now known, sold its remaining stake in the GPA Group, which it helped found with $50,000 of capital in 1975.

Although the airline business is one of the world's most unprofitable industries, airline finance appears to be an exception. And while this may all sound a bit too good to be true over the long term, as long as the current shortage of jet aircraft continues GPA's profits are likely to continue to bound ahead. Over the last five years its net income has increased eightfold and in the first nine months of its cnrrent year earnings are up hy another 53 per cent, to $110m, and shareholders funds now topping $500m.

With an eye to helping the company into the public arena at some stage, Salomon Brothers has just completed a hefty study which values the company at over $1.5bn, or three times the size of its only quoted competitor – International Lease Financing Corporation. This makes it bigger than both the Irish banks and puts it on a par with Jefferson Smurfit, that other Irish wonder stock.

Japanese new issues

For the moment, the Japanese market is far too busy with its leaps and bounds routine to bother too much about Recruit Cosmos. The threat that political fallout from the scandal will seriously blight the economy sounds more like Western wishful thinking than anything else. The possibility that it will prompt the Tokyo markets to abandon their less equitable practices probably falls into the same category.

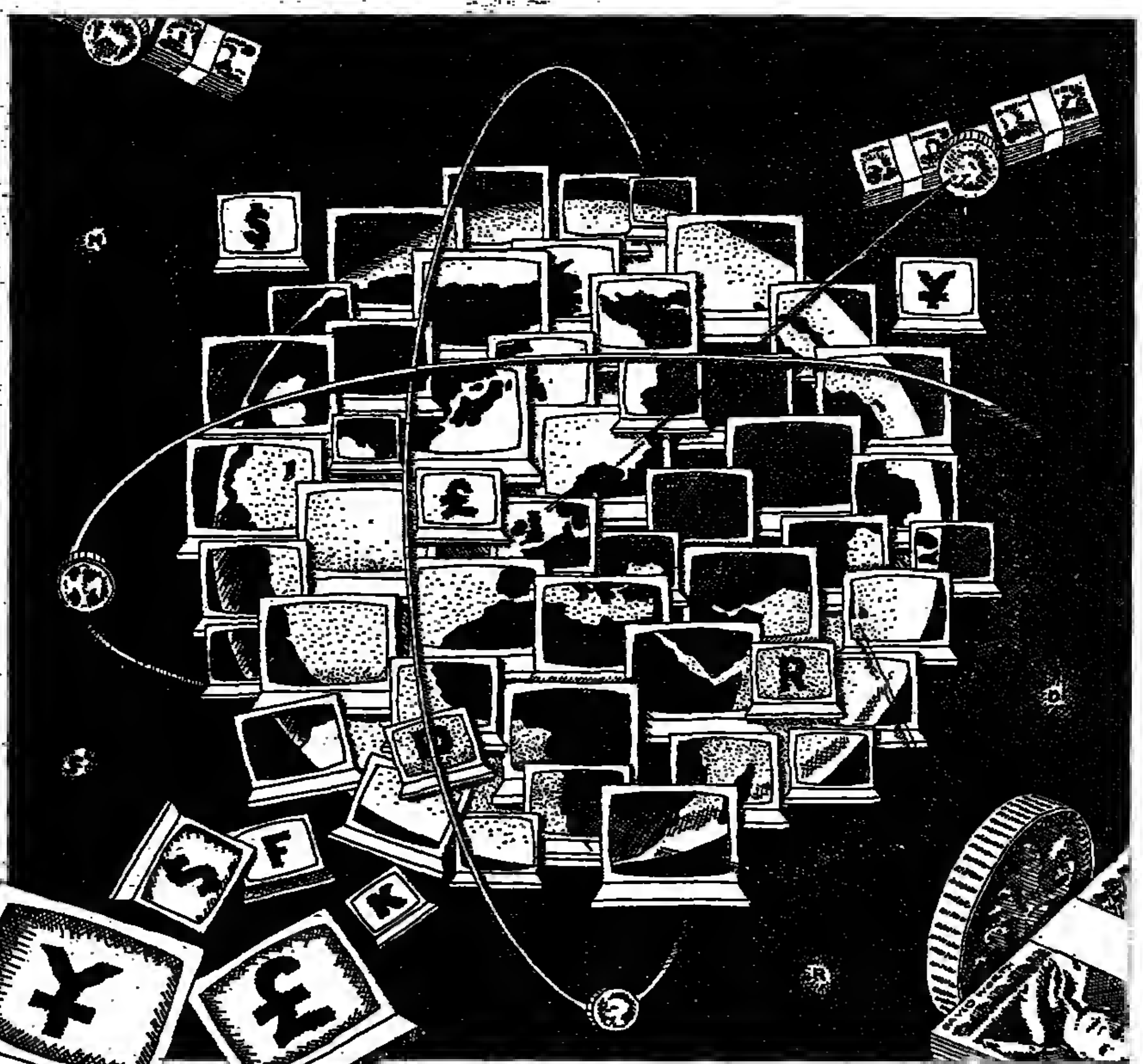
Still, the Tokyo stock exchange – and the Ministry of Finance which regulates it – are not silly enough simply to pretend Recruit is not happening. In the interests of showing a proper sense of outrage at Recruit abuses, the exchange is to take some of the fun and games out of the new issue market. From April, a large chunk of every new issue will have to be auctioned off, instead of virtually given away to those with friends in the right places; and the price is to be determined by something other than the whim of those involved.

Almost everyone agrees that the measures will have precisely no impact on overall prospects for the market – or even much effect on the way the market trades. Stockbrokers have been using guaranteed profits from new issues as a way of lubricating relations with clients for so long that it seems unlikely they are about to give up now. And even if they cannot keep this particular gravy train moving, they will no doubt find another.

SECTION III

FINANCIAL TIMES SURVEY

Major banks have identified a product with the potential to outstrip earnings from glamorous activities like corporate finance, writes **Andrew Freeman**. As world exchanges improve their settlement systems, custodians are likely to become consultancy-style advisers.



Global Custody
AND SETTLEMENT

A ball for Cinderella

GLOBAL CUSTODY is one of the least known areas of international banking and investment. Without it, however, the explosion since 1980 of cross-border investment by pension funds and institutions could not have happened. The reason is simple – most trades would simply not have settled.

Custodians complain that the typical reaction they meet is one of plain ignorance. "You would be amazed how many people still don't know what global custody is," says Mr Colin Grimsey, at Chase Manhattan.

Perhaps the main reason for the product's low profile is that, in many people's minds, global custody is inseparable from the image of the dull back-office, staffed by second-rate administrative employees.

Today, that image has changed, leading one custodian to call it, "a Cinderella business". Major banks have identified in global custody a product which has the potential to outstrip the earnings of glamorous activities like corporate finance.

It has increasingly attracted quality staff and found itself at the centre of development programmes. "What was once a service offered almost as an after-thought to clients who brought in other business has moved to centre stage," says Mr Brian Collings, of Boston Safe.

"If you're a major player in international banking and you have a branch network, then global custody is an obvious business to be in," says Mr John Morris, of Citibank.

In essence, global custody is an international banking service offering multi-currency asset safekeeping, settlement, trade accounting and portfolio reporting. It is systems-intensive and involves the organising of complex information flows.

No one knows how large the business has grown since its beginnings in 1974, but current estimates start at $400bn and rise from there. Figures suggest that the US tax-exempt asset pool – pensions funds and foundations – is alone in the region of $70bn.

When they talk about the huge growth potential of an already significant business, global custodians do so with confidence. They know that international settlement was forced to the attention of the securities industry during the peak and subsequent crash of the 1980's bull market.

Studies by the influential Group of 30, one of which is due to be reported soon, have focused on settlement and clearing mechanisms on the world's exchanges and bourses in search of solutions to trading difficulties. "People in high places have had to acknowledge that we oil the cogs of international investment," says one custodian.

The evolution of the custody business has run a course parallel to the progress of international securities trading and fund management. The passing of the Employment Retirement Income Security Act (Erisa) in the US, in 1974, gave domestic funds the room they wanted to diversify their assets into non-US securities, and also encouraged the growth of the nascent master trust industry.

The simultaneous growth of cross-border investment in Europe focused attention on stock exchanges which had slumbered through the post-war period, and which were quite unprepared for the arrival of large quantities of foreign money.

Client demand meant that US banks were among the earliest to develop custody as a coherent banking product, with Chase Manhattan, State Street Bank and Citibank at the forefront.

Chase currently has some $65bn of assets administered under its global custody product, while State Street has around $42bn. Assets under administration grew by a combination of the natural increase of existing securities and successful competition for new business.

Many other banks claim substantial assets under custody, but tend to conflate their domestic assets with global funds, giving an exaggerated impression of their market share. Global custody is quite different, not least because it involves a multi-currency facility.

There is a small group of global custodians which dominates the business by size, and also by the stage of evolution that their particular products have reached.

A much larger secondary group includes niche players and relatively recent entrants which, in volume terms, cannot be compared with the larger players. Many players foresee a period of shake-out, during which some smaller banks may decide that they can no longer commit resources to global custody.

New-entry costs are now so high as to be almost prohibitive. The business has developed alongside the revolution in information-processing, and most of the leading custodians rely on state-of-the-art computers. Systems problems have dogged the business, with several banks pulling the plug on the product when faced with repair or development estimates.

The early days of what became an extremely rapid process of internationalisation revealed glaring inadequacies in many countries' settlement systems, and the influx of funds caused legendary snarl-ups, notably in Italy and Spain.

At the same time, many investing institutions found that their own administrative systems were inadequate in the new environment, and they faced the choice between huge internal investment and hiring a custodian. Global custody and settlement systems came, and have remained, under a unique spotlight.

As Mr Jerry O'Leary, head of Chemical Bank's global custody unit, says: "The settlement issne was the starting point of global custody. If investment is to be an efficient activity, settlement cannot lag trading by a significant period. When a trade fails to settle, all sorts of risk are outstanding, and the reasons for trading are fundamentally undermined. The more international the investing, the more this applies."

Mr Ron Golz, of State Street, agrees: "Funds which allocate resources for global investment are looking for liquidity and efficient settlement, to ensure that they really get the diversification they want."

Following their experiences before and after the 1987 crash, many investment houses are in the process of reviewing and abandoning their own back offices, often hiring a specialist custodian.

One of the difficulties that fund managers or brokers face is in identifying their costs. Those who are certain that they run a cost-efficient administration department may be tempted not to hire a custodian, on the grounds that they will benefit by keeping their destiny in their own hands. The majority of houses, however, are likely either to spin off or shed their custody over the next five years.

Like their fund manager counterparts, many large self-administered corporate pension funds are also swapping the cost of an in-house settlements department for a custodian's fees.

Consultants have noted an increasing tendency for funds to appoint a master custodian to ease the problem of reconciling reports from several money managers. International investing by pension funds is still growing apace.

For the custodian itself, the business is divided between securities handling – taking delivery of, or delivering physical securities – and managing the information flow which a single transaction sparks off.

Most custodians are still perforce at the stage where they are absorbed by the basic functions of the business. In future, however, they expect the world's exchanges to improve their settlement systems, with many moving to a book-entry environment with pre-matching reducing the possibility of trade fails.

This will have a profound impact on the global custody business. As settlement difficulties ease, the data processing function will come to the fore, and custodians will turn themselves into consultancy-like advisers, to whom the administration of portfolios is routine.

When the trustees or sponsors of a large fund make the decision to invest outside their domestic market, they have traditionally thought in terms of diversification and return. As global investment grows, however, the thought behind it is increasingly sophisticated.

Most trustees would find it quite impossible to keep track of their portfolio under own steam, particularly in the UK where trustees are generally not as financially sophisticated as their US plan sponsor counterparts.

With pension funds' tendency to appoint multiple managers, index managers and niche specialists, the administration of funds with an eye to risk-management and fund-manager monitoring has become a specialist business.

This is where the custodian comes in. In 1987, Bankers Trust bought the WM Company, a UK performance measurement boutique. Other custodians are positioning themselves to make similar moves towards established consultants.

CONTENTS

Illustration: David Worth

What exactly does the global custodian do? **Andrew Freeman** explains the basic services

Nuts and bolts matter more than glamour products

TODAY'S TYPICAL marketing of global custody tends to concentrate on ancillary services like foreign-exchange management and stock lending, the high-profile areas where a client is easily persuaded that a faw extra bssis points of returns are on offer.

The basic services, the nuts and bolts of the custody business, are too easily ignored, but it remains a fact that, if a company could guarantee to provide them to a consistently high standard, it could leap over its rivals' heads.

This was candidly put by one fund manager, who said: "When I see a list of the custodians we potentially have to work with if we win a fund management mandate, there are only three names which cause me to relax. There are several which make me groan."

Four primary services orbit the settlement and reporting core of global custody: asset safe-keeping; the collection and posting of dividends; tax reclamation; and notification of corporate actions, such as rights issues, takeover bids and board changes which might require a vote or proxy vote by the client.

At first sight, it is hard to imagine that such apparently straightforward functions could be the subject of much interest. But, as Stuart Parker, of State Street, says: "Don't under-estimate how hard it is just to provide what are the basic services." There is plenty of marketing talk about glamour prodncts, but privately many custodians agree that this is something of a smokescreen.

The least difficult of the functions, asset safekeeping, is rarely mentioned by either custodians or clients as causing them problems – although a few years ago, when many companies were creating their international agency network, it was an issue in less developed markets.

Custodians enjoy telling stories of inspecting strong-room facilities in banks in some of the more unlikely markets – the Ivory Coast or Jordan, for example. It is rare to hear of assets being lost or stolen, and in practice clients are indemnified against loss by their contract with the custodian.

The essence of global custody is that assets, once purchased by a fund or individual, do not sit idly in a vault. Custody is a pro-active product which anticipates, for example, the payment of income on the assets.

Dividend and coupon collection is a major function, particularly where several clients may hold shares in the same company. An idea of the complications involvad is suggested by the fact that Chase Manhattan alone has some 127 holders of stock in Siemens. When the annual dividend is paid, nearly $16m is credited to the Chase omnibus account, an amount which is then split between the relevant owners.

Four primary services orbit the settlement and reporting core of global custody: asset safe-keeping; the collection and posting of dividends; tax reclamation; and notification of *corporate actions*, such as rights issues, takeover bids and board changes, which might require a vote or proxy vote by the client

Corporate actions

High risk	*Low risk*
Rights issues	Bonus issues
Takeovers	Stock dividends
Mergers	Sub divisions/consolidations
Conversions	Stock splits
Dividend options	Name changes
Dividend reinvestment plans	Redemptions
New issues	Maturities (includes GNMAs)
Placings	Japanese "odd lots"
Offers of shares/bonds	
Tenders	
Exchange offers	
Partial tenders	

In 1988 as a whole, Chase processed $1.75bn, representing 70,000 separate dividend payments. Income-collection activity peaked in December, when the bank collected and credited $200m via some 8,000 instructions to its individual account holders. For custodians generally, June and December represent busy months, coinciding with the major reporting seasons in Japan.

Long before the income is actually credited to the customer's account, however, the custodian has to warn the client to expect a payment so that the funds can be utilised as soon as they are credited.

The desire for more active cash management has led clients to ask for prodnct enhancement, whereby they know with certainty when they will receive their funds.

Several custodians now offer what will probably become a standard service, a facility which automatically credits them within a set period after payment of the dividsnd becomes due. Thus, no matter how long a sub-custodian takes to transfer the income to the custodian, the client will be credited after, say, 48 hours.

This is essentially an extension of the contractual settlement accounting system used by many custodians. It has to skirt tax regulations which forbid the payment of dividend income in advance, but this is done by calling the credit a payment in lieu of dividend. Already in some markets, foreign investors served by the facility are receiving their income ahead of domestic shareholders.

Once the dividend has been paid and confirmed, the custodian often has to institute a tax reclaim on behalf of the client.

For many custodians, servicing clients' tax needs is the most demanding of their basic functions. As with payment times for dividend income, the creation of country standards helps to alert the custodian to any overdue claims.

However, tax-witholding treaties are notoriously complex and can be a minefield. One fund manager cites the problems that can arise when a fund is registered in one country for beneficiaries in another, but is managed in a third. "If the double-taxation agreement is set up wrongly, the complications can be horrendous," he says.

Further, outstanding tax reclaims on a fund can amount to significant exposure. The industry is very familiar with tax problems, chief among which is finding staff who can cope with the complications.

Increasingly, banks are taking an active approach to tax matters, sending experts to talk to tax authorities in local markets to find out how to avoid trouble.

In some markets, the answer has proved to be simple. By filing tax claims on a rolling cycle, multiple applications per client can be avoided, speeding up processing by cutting down paperwork. Custodians take the view that it is quicker for them to sort out any reconciliation problems than it would be to wait on the authorities.

For new business, it is common to find custodians applying for blanket tax exemptions in line with the status of the fund before any investment has occurred. However, existing funds do not allow this luxury.

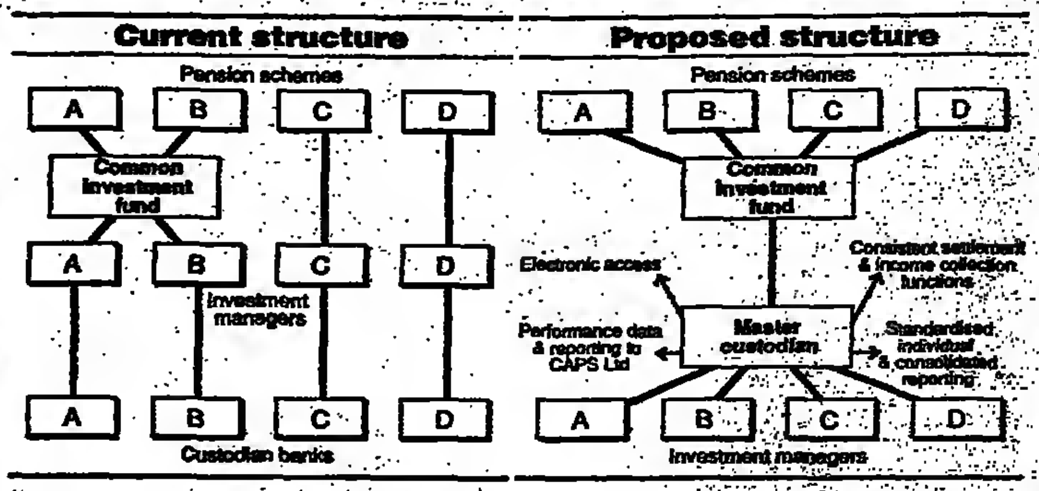
The last of the major basic services, corporate action notification, is an area where most clients imagine that there is little potential risk. However, as the table suggests, the range of possible actions is wide.

Custodians have mostly learned the hard way that failure to notify clients of an action can be costly. One action which makes them take particular care is a partial tender, where clients have to tender their holdings to qualify and where it is not clear until the last minute how much stock they have been granted.

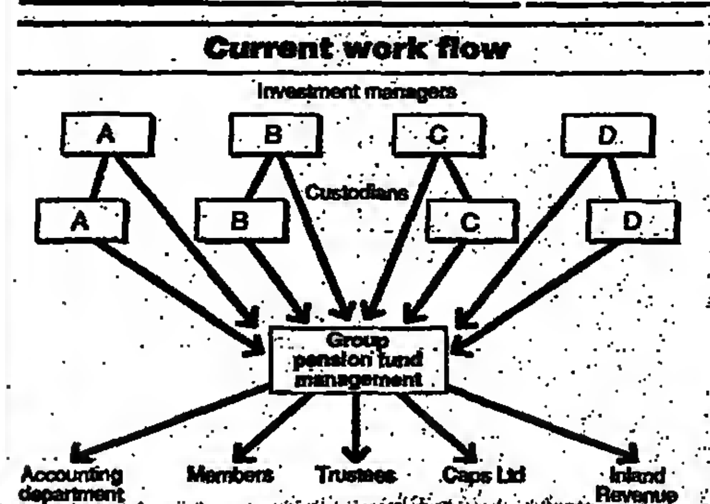
If the unthinkable happens and a custodian fails to notify clients of an action, it is standard for clients to be indemnified

Occasionally the unthinkable happens and a custodian fails to notify clients of an action. In such circumstances, it is standard for clients to be indemnified for any losses, which will be met by the bank.

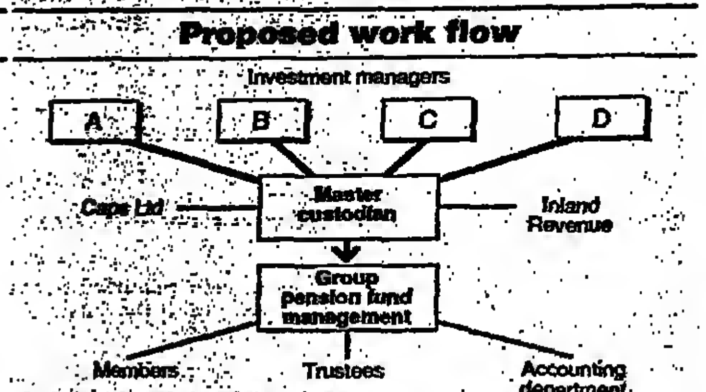
Problems usually occur when the custodian receives very late notice of a shareholder's intentions. In a contested takeover, for instance, investors often wait until the last minute to pledge their shares, leaving a fine deadline for the custodian to deliver the stock. The last resort is to chase instructions using the telephone.



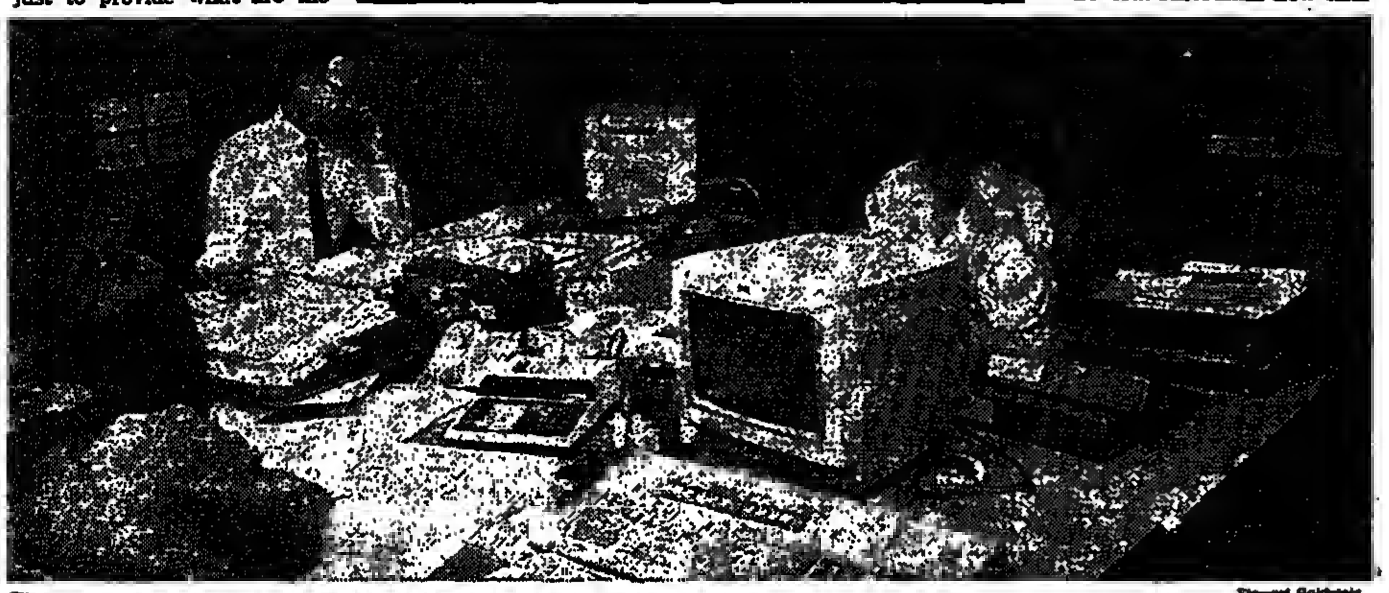
■ These two flow-charts, drawn up by Bank of America, illustrate the arguments in favour of appointing a master custodian



● Inconsistent reporting, accounting and pricing information
● Multiple settlement and income collection practices
● Information overkill
● Requires extensive reconciliation
● Change of investment manager necessitates change of custodian



● Operational consistencies
Settlement. Income collection. Pricing. Cash management.
● Operational efficiencies
Investment managers concentrate on stock selection. Admin/settlement functions are handled by the master custodian.
● Improved reporting and enquiry paths
Centralised and uniform reporting. Consistent approach to accounting and ... Consolidated and individual reporting facilities. On-line ...
● Improved performance/reduced costs
Centralised settlement together with centralised cash management facilities contribute towards increased portfolio performance. Cost reduction is achieved by both customer and the investment managers through the elimination of administration and reporting functions previously performed under individual arrangements.



The custody operations room, of State Street Bank, in London   Stewart Goldstein

SYSTEMS TECHNOLOGY

Computers will add value

INCREASED competition within the global custody market in the last two years has meant that companies that wish to continue to compete are being forced to provide added-value services.

Such services are possible only through large investment in integrated software systems and expensive hardware technology. Much of the lead has come from US organisations that sell into the London market, bringing with them technological solutions and added value. UK clearing banks are obliged to react to the determination of US banks by installing technology.

"Customers are becoming increasingly demanding," explains Ms Jaime Warner, vice president of sales and relationship management at Bankers Trust in London.

"They are more and more keyed into the technological advantages and problems of internal custody. They realise that the custody companies are only as efficient as the information they have – and that is dependent upon the technology," says Ms Warner.

She believes that in future it will be the technology, and the services that it will allow companies to offer, that will differentiate between them.

"Everyone will be able to provide custody – that will be standard," she says. "Rather, the market will be decided by the ease of access to up-to-date information and the added value offered by being able to manipulate that data."

Until recently, most processing of information was carried out on mainframes. However, the increasing power of mid-range medium-sized computers has, to some extent, reduced the cost of entry into the market. The major suppliers of hardware include International Business Machines (IBM), Digital Equipment Corporation (DEC), Hewlett-Packard and Prime Computers.

A number of custodians have developed their own software with added-value features, to gain competitive advantage. The financial services division of Chemical Bank has written a program called CSAS, which allows sophisticated analysis of statistics in a wide range of currencies.

Others have bought in software and adapted it to their needs. Royal Trust, the global custody division of the Royal Trust Bank, the Canadian organisation, has recently installed a program provided by Datalink, the Guernsey-based software company. Royal Trust is also installing an IBM AS 400 mid-range computer this April, to replace its less powerful IBM machines.

"Customers realise increasingly that the custody companies are only as efficient as the information they have — and that this is dependent upon the technology"

Royal Trust hopes the move towards more powerful machines will help it to expand from being a small player in the market to a medium-sized one.

"Previously we used Extel information services. But this business is increasingly becoming a technologically driven," says Mr Tim Gartside, senior manager of global custody.

"We have to have the sort of automation that the Datalink system provides," he says. "We just couldn't handle the volume of information, nor provide the sort of analysis we need to offer by drafting in clerical staff. Besides, in the off-shore offices of many of our sub-custodians the cost of that sort of labour is often prohibitive."

While the technology overcomes many of the problems of custodianship, the most sophisticated programs can also provide a large number of added-value services for the customer. These include:

■ The ability to communicate which trades were successful, and at what price they were purchased;
■ The option of showing the present state of individual holdings;
■ The possibility of seeing the overall value of all holdings held in a portfolio in a large number of currencies;
■ The automatic collection of dividends; and
■ The ability to work out the performance of holdings in particular sectors or geographical markets, so that they can be compared.

A number of systems, such as CSAS, provide this sort of information off-line. Chemical Bank says that one of the advantages of the off-line method is that the client can ask for information and then down-load it to disk for later analysis without worrying about the telecommunications costs of an on-line system. In the latest version of CSAS, launched in January last month, the data is updated every 20 minutes to ensure that information supplied to clients is current.

However, one problem associated with both on-line and off-line systems is security. Much of the information within the computer system and transmitted between client and custodian is sensitive.

The great advantage of computer networks is the speed and ubiquity of data. But, paradoxically, the major disadvantage is control of access to that same information.

The CSAS program at Chemical Bank has a sophisticated security system to deal with this sort of problem. Its aim is to guarantee that the system has the best balance between practicality and security – an over-secure system can be impossible to use.

Access to each terminal is controlled by passwords, which are changed regularly. When data is actually transmitted, it is encrypted with codes at the beginning and the end of each message, to ensure the integrity of the transfer. The program also supplies an audit trail. This increases the chances of detecting unauthorised use, and ensures that the right instruction has been passed from client to custodian.

Chemical Bank points out that data communications via computer are more secure than paper-based methods or systems based on fax and telex, which are far easier to intercept and far from easy to encrypt.

Nevertheless, despite the technological advances witnessed by the market in recent years, there remain serious problems for custody companies to overcome if they are to become truly global.

Although the stock markets in New York, Tokyo and London have reasonably sophisticated computer systems, many bourses on the Continent have not. Some companies believe it could be 10 years before some bourses have compatible systems that can report in real-time. Until then, the global custody market will remain global in name only.

Paul Abrahams

Andrew Freeman considers the special needs of mutual funds

Trustees tread a difficult path through regulations

GLOBAL CUSTODY for mutual funds and unit trusts has quite different characteristics from the pension-fund product.

For a start, the profile of mutual funds is much higher than that of a pension fund. If something goes wrong with, say, the income distribution of a unit trust, the public image of the trust company can be badly damaged.

US mutual funds were among the earliest investment vehicles to commit assets to non-US securities, and the sector is recovering steadily from the setback of the 1987 crash.

In the UK, the unit and investment trust sectors have a long history of international diversification. Servicing their needs involves core custody work, usually with fiduciary responsibility thrown in.

Unlike a pension fund, which generally requires monthly ledger reporting, a mutual fund requires daily valuations of its assets so that the units can be priced for trading the next day. In the US, custodians such as State Street undertake net asset value processing for clients.

However, the daily valuation is also often undertaken by the fund manager in conjunction with information and price providers such as Extel and Datastream. To ensure the accuracy of pricing, the custodian's handling of dividends and corporate actions has to be particularly timely.

Special attention also has to be paid to record-keeping. In the UK, the trustee is required to monitor the calculations so that accurate statements can be guaranteed. This is being done increasingly by auditors acting as delegates of the trustees.

In the US, regulations mean that accounting for mutual funds has to be done on a trade-dated basis, with the custodian taking responsibility for precise trade monitoring.

"We're not allowed to do the average-cost accounting that is standard for pension fund clients," says Mr Bill Gundy, of State Street, which has some $7bn under global custody for US international mutual funds.

Funds which have large numbers of unit holders can be difficult to administer, and in practice many custodians offer only a core custody product consisting of safe-keeping, settlement and reporting. They decline, for example, the shareholder record-keeping work, which is contracted elsewhere.

The US mutual-funds market is governed partly by the Securities and Exchange Commission (SEC) Rule 17F5, which sets capital adequacy standards for sub-custodian banks in foreign markets. Global custodians routinely ensure that their network meets 17F5 requirements, and they have to demonstrate to fund boards on an annual basis that they have reviewed their sub-custodians.

The UK picture is complicated by the fact that the global custodian has traditionally been required to take on the role of trustee to the fund.

This fiduciary relationship involves a higher level of responsibility, whereby the custodian guarantees to meet the terms and conditions of the trust deed.

The trustee role is onerous, involving constant monitoring of the assets held by the fund. The custodian not only ensures that the fund's managers do not buy securities which they ought not to, but also guards against false advertising claims. The tiniest detail of the trust deed has to be upheld.

In the UK, suggestions that the custody function might be split from the trustee role fall down on practical objections. As one trustee says: "The links between the two are so close – trustees have to know exactly what's going on in a fund."

The argument that many funds have been poorly served by their trustee is quite another matter. To ensure that the terms of the fund are met in accordance with legal restrictions is a heavy responsibility at the best of times. Recent history in the UK has seen trustees constantly under pressure.

During the bull market of the 1980s, the rapid expansion of existing funds and the even faster launching of new funds had the effect of thoroughly confusing many trustees. New markets were opened up for investment, and problems quickly followed.

Regulatory chaos has also dogged the business. The revamping of the unit trust industry was to involve deregulating in what was seen as an over-regulated market. But the application of trustee rules via the Securities and Investment Board has been unfortunate. "We are still paying the price of haste," comments one manager.

There is little doubt that one consequence has been customer dissatisfaction, with many funds feeling that they have been poorly served. US banks in the UK, notably Citicorp and Chase Manhattan, are trying to exploit this feeling by competing hard for business.

The next development in custody for mutual funds and unit trusts is expected to come with the launch of the first international index funds, thought to be some time off.

These will require a unique degree of service. Although they are labelled by fund managers as passive funds, index funds involve very high transaction levels, as they require regular re-balancing.

Custodians are also looking to Europe and the deregulation of cross-border investments after 1992. The Ucits (Undertaking for Collective Investments in Transferable Securities) directives, issued by the European Economic Community, have opened up considerable opportunities for the servicing of Luxembourg-based mutual funds, which several banks are aggressively pursuing.

Unlike a pension fund, which generally requires monthly ledger reporting, a mutual fund requires daily valuations of its assets so that the units can be priced for trading the next day

Trustees: number of trusts and total value of funds

	Number 1987	Number 1986	Total value £m 1987	Total value £m 1986	No of new funds Jan-Jun 1988	% inc on end 1987
Alliance Assurance Co	15	13	441.9	493.2	-	-
Bank of Scotland	121	98	4,999.4	4,101.1	9	7
Barclays Bank Trust Co	72	68	3,289.5	2,706.3	3	4
Chase Manhattan Trustees	19	2	518.0	52.4	4	21
Citicorp Trustees	2	-	1.0	-	17	850
Clydesdale Bank	46	35	1,337.9	1,000.7	1	2
Coutts & Co	25	23	800.1	848.2	4	18
General Accident	31	25	1,577.3	1,412.0	1	3
Kredietbank Luxembourg	1	1	3.3	6.2	-	-
Lloyds Bank	154	140	5,711.2	4,369.2	9	6
Midland Bank	265	238	6,852.8	6,048.2	9	3
NatWest Bank Trust Co	97	72	1,319.5	1,109.4	8	2
Royal Bank of Scotland	316	283	9,109.3	8,320.8	18	5
Royal Exchange Assurance	48	46	2,418.1	2,008.5	8	17

Source: Unit Trust Year Book

PROFILE: COLIN GRIMSEY

Staff talents and care with clients put Chase ahead

Alan Harper

Colin Grimsey: near-guru status, but a healthy cynicism about his attributed talents

COLIN GRIMSEY, of Chase Manhattan, has achieved near-guru status in the Global Custody business. According to one competitor and ex-colleague: "In the US, his name is synonymous with global custody. People jokingly call him Mr Custody."

Mr Grimsey is indeed often credited with inventing the term "global custody" but he denies this: "The term was coined by Douglas Bonnar, also of Chase Manhattan, in late 1974," he says.

That was about the time that he joined Chase. The bank had recently started handling the international assets of the Ford Foundation, which diversified outside the US following the Employment Retirement Income Security Act (Erisa). Within Chase it quickly became obvious that the administration needs of the foundation were way beyond its ability to deliver.

Mr Grimsey was hired to create and develop a product which Bonnar gave the label "global custody". He engineered a rapid expansion of assets under administration by touring the US and marketing direct to funds which he knew were considering going international. Many of the early clients were mutual funds.

"In those days, there was no one else in the business," he says. "Our success rate was phenomenal." From $100m in early 1975, Chase's global custody grew from scratch to $4.5bn by 1979. The bank's first US pension client was Arco, an $80m mandate in 1975.

The key to Mr Grimsey's long-term success has been his skill in handling clients, many of whom have been with Chase since the beginning. Expert marketing has combined with an ability to convey to clients that they are a priority to create a service which other custodians pay the compliment of measuring themselves against.

"Colin realised early on that looking after clients is crucial to success," says another ex-colleague. "In the pioneering days of the business, it was possible to give clients individual attention. You have to remember that in the early days of international investing, clients were very naive and didn't know what they could reasonably expect."

Mr Grimsey himself has a healthy cynicism about some of his attributed talents, but at the same time clearly relishes his status. No one disputes that he knows the industry as well as anyone and has wide experience of markets and procedures.

He has also undoubtedly benefited from his ability to attract and keep talented staff. Chase Manhattan built its current lead in the business in the early 1980s when a team of like-minded people was put together to service and develop the product.

Mr Grimsey took responsibility for marketing and client relations, as well as network management and product development, while the operations and systems side was built up by other staff.

That carried a significant advantage, in that it allowed him to rise above the technicalities and problems that inevitably accompany a systems-intensive product.

Chase has evolved further than any of its competitors and has experienced most of the developmental problems that are typical of the custody business. Specifically, it was the first bank to take global custody through the transition from a small product to a major revenue-earner.

It is also arguably the only bank to have gone through a further stage of evolution, replacing and refining systems which had been out-grown by rapid expansion of the client base. Today, its operations centre in Bournemouth has huge unused capacity and is easily capable of processing Chase's $85bn global custody assets.

Mr Grimsey has had his share of frustrations over the years, many of which have concerned the pace of investment needed to improve Chase's capacity. He makes no secret of the fact that each stage has involved painful decisions as well as major capital investment in systems.

At one point, Chase stopped marketing because it was having severe problems looking after existing clients and could not afford to take on new business. "We didn't start marketing again until we were certain that we were ready," says Mr Grimsey.

One of Chase's major competitors, State Street, is currently in the sort of transition phase which characterised Chase's operations two years ago. Negotiating transition is obviously crucial to business success, and many custodians face the prospect of what Mr Grimsey calls, "the wall".

In recent years, roughly since 1985, rival organisations have attracted some of Chase's team away with the sort of offers normally confined to corporate finance departments. As they have spread throughout the business they have taken much of Mr Grimsey's business philosophy with them.

He has also played a significant role in inspiring and sustaining a camaraderie among London's custodians. Some years ago, he instituted a series of lunches where rivals shelved their competition for a few hours to discuss mutual problems with markets or agents, and to explore the future of the industry.

Andrew Freeman

Settlement: **Andrew Freeman** examines the problems faced by world markets, and their consequences for custodians

London waits for Taurus

SETTLEMENT in global markets came to the forefront of the financial world's attention during 1987, when a rapid rise in trading volumes presaged the October crash.

Although essential liquidity was maintained, often by central-bank intervention, the fact that the international securities industry depends on efficient clearing and settlement was powerfully imprinted in people's minds.

According to one banker: "Global custodians were given something of a beating. The buck stopped with them."

Influential bankers and industrialists called for an examination of the constraints that settlement procedures place on international capital and investment flows. In March last year the Group of 30 published a briefing paper, *Clearance and Settlement Issues in the Global Securities Markets*, which addressed the implications of the fragmentation and complexity of the world's separate clearing mechanisms and suggested a tentative goal – the achievement of a uniform trade processing system.

Later this year, a steering committee chaired by Mr John Reed, the chairman of Citibank, will report to the Group of 30 on progress made in persuading governments and stock exchange authorities to move towards harmony of settlement procedures.

From the custodian's point of view, inefficient markets have been part of the business. Inefficiency in settlement costs money. Custodians which normally offer contractual settlement date accounting can be forced to revert to an actual settlement process, making the problems even more frustrating for clients. As one official says: "It's an imperfect world and our job is to try to lessen the imperfections."

Two years ago, a widely-quoted statistic said that the fail rate on international equity trades was running at nearly 40 per cent. Today, custodians agree that the figure is much lower, an improvement allowed by the decline in trade volumes, but encouraged also by their awareness of how much failed trades can cost.

Lower volumes carry the pleasant by-product of lower reconcilement problems. Increasingly, custodians are looking to trade-matching and confirmation systems to improve further their settlement rates.

The introduction last year of pre-matching facilities by the clearing houses Cedel and Euroclear is generally acknowledged to have had a major impact on trade efficiency.

One global custodian, Bank of America, started to do manual pre-matching of international equity trades by its customers, and experienced a dramatic improvement in its settlement rate. Although the facility is expensive, it actually saves money because fewer trades have to be unwound.

On one side, improving settlement involves short-term agency management, whereby the custodian improves its service by actively managing its agent bank in the local market.

For example, in Spain – still considered the worst of the developing markets for settlement difficulties – some custodians have dramatically improved their fail rates by closer liaison with their sub-custodian.

Asked to name the markets in which they have settlement difficulties, custodians recite the names like a litany: Spain, Australia, Portugal, Italy, the UK . . .

When custodians are asked to name the markets in which they have settlement difficulties, they recite the same names like a litany. Spain, Australia, Portugal, Italy and the UK are at the top of the list, with many of the smaller or emerging markets dominating the remainder.

All these markets have at one time or another suffered a volume problem. Inherently inefficient settlement systems operated for years without strain when volumes were low. As international investment became typical and capital flows expanded, settlement weaknesses were ruthlessly exposed.

Italy's was the first European exchange to run into major settlement difficulties, but Spain and the UK followed,

John Reed: a report this year

and Greece and Turkey are predicted as the next problems. Japan and the US are considered the most efficient.

Even in poor markets, however, custodians agree that they have only a fraction of the fails they experienced a year ago. Mr Jeffrey Ruzicka, of Northern Trust, says: "We use our trouble-shooting team much less today than we had to when volumes were high."

In the long run, however, custodians are anxiously watching the development of the world's exchanges for signs that will change the future direction of the business. Most potential developments concern electronic book-entry systems which eliminate the paper chases typical of many of today's markets.

The dream of a centralised book-entry clearing system outlined by the Group of 30 is not a new one. When the London Stock Exchange became the International Stock Exchange (ISE) in 1986, an ambitious international equities clearing system called Globalclear had to be abandoned when more efficient exchanges were understandably reluctant to hand over their business.

The settlement problem is particularly acute in London, which is struggling to devise a means of holding on to its position as the premier market for international equities trading.

Debate currently centres on the application of Taurus (transfer and automated registration of uncertificated stock), the computerised book-entry system due to be launched this year after a long development. The Securities Industry Steering Committee on Taurus (Siscot), which replaced the original Taurus user advisory group, is due to report to the ISE in a few weeks' time.

Until then, committee members will say little about their recommendations. However, it is clear that Siscot has been examining cheaper alternatives to Taurus.

In particular, it has addressed what custodians see as the central issue. At some point in the future, bringing London up to standard will involve full dematerialisation. Custodians say the sooner this occurs, the better.

The resistance point seems to be a widespread belief that investors are not ready to accept a world entirely without share certificates.

But advocates of dematerialisation argue that this is a chicken-and-egg case. The absence of certificates would mean cheaper dealing costs, which should encourage more investors to buy equities. The US market testifies to the fact that effective, cheap settlement procedures facilitate much higher trading volumes – a virtuous circle for investors and securities houses alike.

The worst result from Siscot would be a compromise, a mixture of book-entry clearing and certificates which implied dual record-keeping. That would be expensive and would drive even more business off-exchange and outside ISE jurisdiction.

Privately, custodians and bankers say that Taurus is too important to be left too the ISE alone. "Would the Depository Trust Company of New York have been set up without the intervention and impetus of the Federal Reserve ?" was the question put to a recent conference on dematerialisation.

A straw poll among the audience revealed an overwhelming majority in favour of either Bank of England or Government action to ensure that Taurus is pushed far enough.

Dematerialisation may have become one of the buzz-words of the settlement and custody industry, but it is likely to remain a distant dream for some years.

■ How Italy is shedding its reputation for inefficiency in share settlement — page 9

A choice of techniques

THE ISSUE of settlement accounting procedures has dominated debate within the global custody business in the past year. It is complex, involving detailed arguments about fees and returns; and it is fundamental, going to the heart of client/custodian relations.

In traditional global custody, settlement is the equal partner with reporting/information flow in terms of importance. It is, after all, the *raison d'être* of the business.

As the link between the two, settlement accounting is therefore of crucial importance and has been used aggressively as a marketing lever by leading custodians.

The issue is partly one of competing systems. If one custodian has a computer software system that is built around accounting to clients on a particular settlement base, that tends to define where the custodian stands in the debate.

There are two methods of accounting to clients for settlement of their international securities trades. Actual settlement accounting (ASA) speaks for itself: an account is debited and credited for trades only when the custodian has taken delivery, or settled the sale, of the relevant stock.

By contrast, contractual settlement date accounting (CSDA) effects changes when the transaction is contractually due for settlement, whether it has actually settled or not.

For example, in the case of an equity purchase, the client's account would be debited under CSDA at the end of the relevant market's settlement period; while, under ASA, the debit would occur only when the stock had actually been delivered.

On the sale side, the customer's account is credited by CSDA whether or not the sale has been completed, whereas ASA involves waiting until the sale is settled. In some markets the inefficiencies mean that delays on both sides can be considerable.

From that simple contrast emerges a fierce debate. As international investment managers become more sophisticated, they are concentrating increasingly on maximising returns from areas they once ignored. Foreign exchange exposure on their equity holdings is the best example.

"The dramatic end of the bull market in 1987 has also had a profound effect," says Andrew Summers, at Morgan Grenfell Asset Management. He points out that, when managers were making effortless returns well in excess of clients' expectations, there was little incentive for them to ask hard questions of their custodians.

In today's market, returns are harder to generate. There is new emphasis on marginal returns. "This has helped to polarise custodians – they are under more scrutiny and there is less business to go round," says Mr Summers. "It's still a growth market, but it's getting tougher."

The polarity begins at the top of the market, where two of the leading players, Chase Manhattan and State Street, offer respectively CSDA and ASA. The arguments in favour of each are complex, but boil down to several essential points.

There are two methods of accounting to clients for settlement of their international securities trades. Arguments for each boil down to several essential points

Funds that appoint a global custodian are rarely fixed funds; even a so-called passively managed fund, designed to track an index, will regularly require re-balancing to ensure that its holdings match the index weightings.

The typical fund can be represented as a series of income flows – monies come in and out of the fund as required. Thus, a proportion of the overall fund is constantly in motion, awaiting the settlement of bargains before being reinvested or paid out to beneficiaries. The debate focuses on this part of the fund.

Proponents of ASA argue that, on the buy side, clients can earn interest by putting

Ron Golz: 'different impacts'

their cash balances on deposit during the time it takes actually to settle a trade. By contrast, with CSDA if a trade fails after the contracted settlement date, it is the custodian thet has earned interest.

Funds tend to have what custodians call a "fail float" of money waiting to be withdrawn to pay for purchases. With ASA, failure to settle a buy order means that no debit has been made from the client's funds, so no interest has been lost.

ASA automatically assumes that any interest earned on the fail float belongs to the customer. This can involve significant sums of money. According to figures supplied by one custodian, its failed trades on the buy side ontnumber failed sales by 10 to one, while some 90 per cent of the failed sales occur as a direct result of a failed buy order.

Advocates of ASA like to turn these figures into basis points, and suggest that customers keeping their interest should substantially offset their overall custody fee.

However, at another level, the issue is one of risk. With CSDA, the custodian keeps the money earned on the fail float, but in return takes on market and broker risk. Interest earned on the fail float is its price for exposure to the settlement difficulties of world markets. ASA leaves the risk with the client.

As Ron Golz, of State Street, says: "ASA and CSDA are two very clear approaches with very different impacts on clients."

State Street runs an ASA system, partly for historical reasons – "Our global product developed from our service to US mutual funds which had to meet SEC requirements for trade date accounting," says Mr Golz.

Competitors argue that, by committing itself to actual settlement, State Street has painted itself into a corner. Even unsophisticated clients have realised that money can be made and lost, and many custodians are now offering CSDA in response to customer demand.

In particular, many fund managers have provided vocal and affective support for CSDA. One UK fund manager studied the effect of ASA on investment portfolios during the bull market in 1986-7, and concluded that the greater liquidity demanded to ensure uncertain settlement times did have a significant adverse effect.

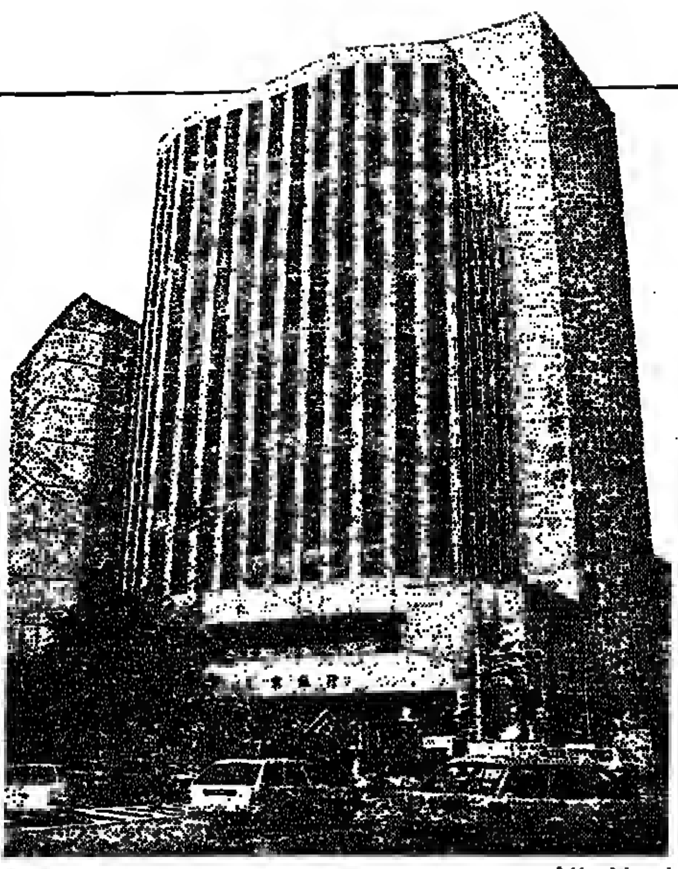
It meant that funds were unavailable for investment in markets which were then rising strongly. The portfolios in question lost some 5 per cent in performance over a two-year period, enough to convince the manager in question that CSDA is the more flexible and requisite system. The performance cost in a stagnant or bear market would obviously be less.

However, fund manager sdvocacy of CSDA has recently gone even further. CSDA appeals to fund managers because it allows them to plan their foreign exchange dealings with greater accuracy – they know exactly when they will receive or pay out funds, and can achieve better exchange and short-term interest rates.

Moreover CSDA offers them easy application of asset allocation decisions – there is no extended waiting for trades to settle before revised portfolio weightings are confirmed by the custodian.

For custodians, the battle for market share is still raising the temperature of the debate. Last August, the trustees of the Ford Motor Company (UK) pension fund were selecting a master trustee and chose a custodian that offered CSDA (Chase Manhattan).

Among the reasons for the choice was a preference expressed by the fund managers hired by the fund in favour of CSDA.



Ashley Ashwood

Its foreign branches meant that Bank of Tokyo was well placed

Custody is new in Japan, but –

The latecomer has potential

GLOBAL CUSTODY is only beginning in Japan, says Mr Takahiro Nomoto, a manager of the Securities Business Planning Department at Sumitomo Trust and Banking, one of just three major Japanese players.

Neither of two more senior colleagues demurs. The consensus quickly reached is that the development of global custody lags behind the industry in America by at least 10 years, but that, as is the Japanese way, it is starting to catch up.

The potential to do so is huge, though whether it will ever be fulfilled is far from certain. It will depend on what happens to Japanese institutional investment, on the outflow of capital that has carried Japanese financial institutions out into the world, and on how, at home, the financial system continues to be deregulated.

Development of global custody in Japan has been stifled by the strict regulation and compartmentalisation of the financial system, and by the relative lateness of Japanese investors in turning to foreign portfolio investment.

Foreign exchange controls were fully relaxed only in the early 1980s. Restrictions imposed by the Ministry of Finance on investment in foreign-currency assets by institutional investors remain, even if they are not as strict as before.

The outflow of capital from Japan that built up during the 1980s encouraged some Japanese custodians to develop their domestic custodial services as international ones for their clients' US dollar-denominated securities. But only Sumitomo Trust, Mitsubishi Bank and Bank of Tokyo have taken the further step of developing global services. It was only after Black Monday's crash of world stock markets that Japanese institutional investors started to diversify into non-US dollar securities and other investments, and so created a need for global custody services.

Bank of Tokyo, the foreign-exchange specialist among Japan's big banks, and which has the biggest network of foreign branches, was naturally well placed to develop global custody. Sumitomo Trust started in the summer of 1987, Mitsubishi Bank in the spring of last year. Mitsubishi got into global custody as much as anything through its acquisition of Bank of California, which was already in the business. The fourth presence in the Japanese market, and the only major foreign player, is Chase Manhattan.

The business is still so young in Japan that it is difficult even to guess the value of assets under global custody. None of the individual banks concerned will disclose bow mucb business they have. And the structure of the industry – a consequence of the legal separation between the banking and securities industries and within various sorts of banking – makes it even barder to tell how big global custody has become.

Securities companies are only allowed to safekeep securities assets; they cannot offer a full range of custodial services. They use their safekeeping services for international securities as a way of generating trading volume.

When a Japanese individual or corporate investor buys a foreign security, he has to switch custodians before he sells it if he wants to use a different securities company from the one used for the purchase. Few small investors can be bothered, so, if the original securities firm offers safekeeping, a commission to sell the security later is virtually assured.

Custody is essentially a banking business in Japan, as it is in America where commercial and investment banking are segregated. Bnt in Japan, unlike America, commercial and trust banking are legally separated too; so, while commercial banks such as Mitsubishi Bank and Bank of Tokyo can be global custodians in a way that would be understood in America or Europe, they are not allowed to manage investment-trust funds, and so cannot use global custody services as an enhancement to a *fund-management business*. Only a trust bank, auch as Sumitomo Bank, can do that, for now at least.

Continuing deregulation of the financial system is likely eventually to blur the boundaries between different sorts of banking, though only a rash man would predict when.

The trust banks are fierce defenders of their patch. Asset management, particularly of pension funds for Japan's greying population, will be a rapidly growing business in the 1990s and into the 21st century. The authorities are already gently giving pension-fund managers more scope to invest in equities and internationally. Japanese global custodians will be aiming to piggy-back off that.

Mr Nomoto and his colleagues at Sumitomo Trust see their bank's global custody services becoming eventually more like those of master trustees in America. But it will first require the development of performance monitoring systems for fund management – virtually unknown in Japan, where the regulated financial system has let the fund-management business develop sleepy ways that it is only now starting to shake off.

Given the clear advantage that trust banks have in developing global custody services, it is surprising that more are not trying to do so. One reason is the need for high capital investment in compnter systems. When Mitsubishi Bank started its global custody service it had recently changed its host computer, for the third time in the 1980s, to give it the necessary capital. It has also poured money into developing, with Japan Unisys, an accounting system that can handle 23 different currencies.

Another reason is that it is not a businesa from which much money can be made. The initial investment is high and pressures to cut fees are strong. Japanese fees for global custody services, althongh about one-fifth the level of those in Europe, are still higher than American. Now that Japanese custodians are beginning to win some of the custody business of foreign (particularly American) investors who are putting money into Japan, they are hearing requests that fees should fall to American levels.

Mitsubishi Bank has at least 500 non-resident custody accounts, including five American pension funds. Sumitomo Trust uses as a staff of 20 in New York (in addition to 100 in Tokyo) working on global custody.

None of the Japanese banks sees much prospect for worldwide marketing of their global custody services for a long while yet. The industry still has to develop in at home, where institutional investors are relatively unsophisticated in their international investment. There may be some inward investment into Japan and other parts of Asia that the Japanese global custodians can pursue. But, as Mr Nomoto suggests, the industry still has plenty of catching up to do that will keep it concentrating on Japan.

James Andrews

THE UK

Spurred by the Americans

TWO YEARS ago, if you had asked US banks to describe their UK competitors in global custody, you would have heard some fairly unflattering remarks.

"The UK banks have tended to think custody involves taking delivery of a security, placing it in a vault and occasionally blowing the dust off it to see if a dividend has been paid," was one description.

That has changed, and, according to the UK banks, was unfair anyway. The trading history of UK financial institutions meant that they exploited the development of global trade links, making them early players in handling and safekeeping securities. The comment, "We were in this business well before 1900", could come from any one of the big banks and some of the merchant banks as well.

What took the UK banks by surprise in the late 1970s and early 1980s was the speed and aggression of American banks' move to market a product which barely resembled their traditional, rather sleepy custody service.

The Employment Retirement Income Security Act (Erisa) of 1974 caused an explosion of interest among US funds in international fund management, which in turn led to the rapid development of banking products to exploit the demand.

In the UK, rather belated recognition was paid to the fact that, unless something was done, the US banks had the potential to clean up, even in the UK domestic market.

"This was partly a question of marketing," says one official. "Domestic banks have always served a major part of the UK market in areas like mutual fund trusteeships and administration, but they haven't made a song and dance about it."

Mr Julian Gibbs, at Barclays, makes the point that, "In the UK, exchange controls were only lifted in 1979. Before then, there was no particular pressure for us to co-ordinate our securities handling capability."

One senior manager in a US bank argues that US and UK banks entered the business with very different skills: "The US banks started with the advantage of their experience in developing the master trustee business, but suffered from the fact that it was a US dollar-based activity. UK banks had much greater experience in the multi-currency environment, but had none of the product experience along master trustee lines."

It is widely accepted that the custody industry as a whole is in the process of bringing these two skills together in a unified, multi-currency service to the standard set by the master trustee business in the US.

The process is particularly visible in the UK market, because domestic banks have lagged behind their competitors in their commitment to and investment in custody.

Increasingly, UK banks have identified custody as a core product and are working to establish and market a credible service. There is a widespread feeling, however, that they will have to move fast if they are to protect their existing business, let alone expand their assets under custody.

As one UK custodian candidly admits: "The realisation that global custody has great potential to earn profits was focused for us by a combination of pressure from the US banks and the increasing publicity being given to the business."

The UK market of pension fund and unit trust assets has traditionally been shared between the clearing banks, including the Royal Bank of Scotland and the Bank of Scotland which have had strong niches based on the Scottish investment trust and pension fund industry.

UK banks have identified custody as a core product. But they will have to move fast if they are to protect their existing business, let alone expand their assets under custody

However, the pension fund market has to be divided between those funds that are self-administered and those that are run by external managers. Many fund management companies, often the subsidiaries of merchant banks or broking firms, have routinely undertaken global custody as part of their overall service to clients – trustees who hired a manager hired a custodian at the same time.

These fund managers are substantial players in the global custody business, but are unique because they do not market a product. A league table of UK custodians which did not include them would thus be very misleading.

Julian Gibbs: less pressure before controls were lifted

Morgan Grenfell Asset Management, for example, has $25bn under custody, while Robert Fleming has $25.5bn. The largest is believed to be Mercury Asset Management.

Privately, the fund managers admit that in the past they have earned good returns by doing custody; so much so that many of them have offered it free to clients.

Changing market conditions mean that, in the long-run, they may find it more economical to separate fund management and custody functions. The marketing drive by US banks means that pension fund trustees are increasingly asking hard questions about the custody service on offer.

It is an open secret within the industry that several fund managers have the future of their administration department under active consideration. A group of merchant banks is understood to have discussed the possibility of combining its assets under custody and forming a new specialist independent company.

Inter-bank politics mean that this is unlikely to occur, but if it did it would immediately create a major player that would leap over existing rivals. It would also capture a large chunk of UK pension fund assets in a master custody arrangement, making it more likely that other pension funds would opt to take that route.

Trusteeships for unit trusts are one of the traditional clearing bank strengths. Even this bread-and-butter business is vulnerable as managers have woken up to the possibility that the trusteeship could be separated from the actual custody of the fund. One of the UK clearers claims to have had several approaches requesting that it become the trustee while another bank does the custody.

Moreover, US banks have overcome regulatory hurdles and can now compete for business. Both Citibank and Chase Manhattan have won their first UK unit trustee mandates in the last 12 months and are confident that there are plenty more to come. To the UK banks' dismay, competition appears to be centring on fees, with some bids implying a loss-leader mentality.

Lloyds Bank is typical of the UK clearers. Its custody has had a low profile and has been confined largely to unit trust and pension fund business, much of which has involved domestic asset safekeeping and reporting.

Catalysed by the urgency of the US banks and by customer demand, Lloyds has taken the bit between its teeth and set up a project team to examine ways of creating a unified product.

Similarly, Midland Bank has made a strategic decision to unify and expand its custody operation and has been notable for the high-profile staff it has been hiring.

The likelihood is that, for a few years, there is enough existing and potential business to keep most of the present global custody players afloat.

It is not impossible, however, that one of the banks will encounter a major systems or development problem and find itself unable or unwilling to compete.

Andrew Freeman

Karen Zagor examines the US market

Public funds eschew insularity as they join the Oregon trail

THE TREND among US public pension funds to invest abroad is evidence of the increasing appeal of foreign markets to the US pension fund industry as a whole.

The so-called public funds, which provide pensions benefits for firemen and other public employees, have traditionally been insular in their investments, as they are understandably reluctant to contribute to the creation of jobs abroad by investing outside of the US rather than at home.

These funds, which hold about $600bn in pension fund assets, are managed by elected officials or political appointees.

An early convert to the benefits of international investment among the public funds is the Oregon Public Employees Retirement System (Opers). According to Mr Jim George, the fund's investment manager, Opers has used a global custodian to invest abroad for about five years.

Mr George said that the Oregon fund currently invested only about 2 per cent, or $350m, of its assets overseas. Its total assets are about $8.6bn. The fund uses Chase Manhattan as its global custodian. Chase also functions as the domestic master trustee for the pension fund.

"We could not have invested abroad without a custodian," said Mr George, "it would not have been economical to clear the securities without one."

> "We could not have invested abroad without a custodian. It would not have been economical . . ."

He believes that investing abroad is an important means of broading the fund's portfolio and diversifying risk; and he expects that Opers overseas exposure will eventually eventually increase to about 10-12 per cent of the total.

Among the large public pension funds that have recently entered into foreign investment is the California Public Employees Retirement Systems (Calpers). With assets of $46bn, it is the nation's largest public fund and second largest pension fund overall.

While the investment team at Calpers had decided some time ago to invest in international stocks and bonds, it has actually held foreign investments for less than a year. Risk diversification and expanding investment opportunities were again cited as reasons to look farther afield.

Like the Oregon public fund, Calpers has had to rely on global custodians to negotiate in the alien territory of foreign currencies and unfamiliar banking laws. And, as with the Oregon fund, global custody for Calpers is organised through its master custodial bank, in this case Boston Safe. However, Mr William Walton, the fund's principal investment officer, said that Calpers might consider using a range of global custodians for index funds and other specialised investments.

Mr Walton expects that 10 per cent of the fund will eventually be invested in foreign assets, with the volume growing at the same pace as the fund.

"Traditionally, we have tried to invest entirely in the US because we're a US fund with US claims. However, risk-reduction through diversification is becoming more and more important," he said. While the US had been the single most important equity market 20 years ago, he added, today it was just one part of the international scene.

"As a public fund, there was resistance to investing abroad but over the years this has become more acceptable, particularly as markets in general have expanded – such as the inter-dependency of the Pacific basin," said Mr Walton.

While there is no statutory limit on foreign holdings for US or British pension funds, in Japan there is a 30 per cent foreign-investment limit. And in Canada pension funds are hampered by a 1971 ruling, which currently curtails the amount that Canadian pension funds can invest abroad by placing a 10 per cent ceiling on overseas foreign investments.

It is estimated that the assets of Canadian pension funds would be at least C$5bn larger than their present level if the funds were allowed to invest an additional 10 per cent of their assets outside of the country.

Pressure has been mounting on the Ottawa government to repeal what is seen by many as an obsolete ruling. One proposal being considered would gradually move the ceiling up in steps of 2 per cent a year over the next five years, ultimately allowing Canadian funds to invest 20 per cent abroad.

A study conducted by Pension & Investment Age magazine found that $73.13bn in assets were under global custody for pensions funds, endowments and foundations. The top five US banks in the field are State Street Bank, Chase Manhattan, Bank of America, Bankers Trust and Irving Trust. They account for almost two-thirds of the assets.

Many banks actually use other banks to provide global custody on a wholesale basis. Mitsubishi Bank of California, for example, does not work directly for pension funds but administers $6.3bn in global custody assets for other master trust banks. The $18.2bn that Chase has under global custody for other banks exceeds the $16.04bn that it has directly under global custody for US tax-exempt funds.

The survey found that US clients were particularly concerned about the high fees charged by global custodians. Global custody fees range from three to 15 basis points for e passive international portfolio, and 25-35 basis points for an active portfolio.

According to Mr Murray Steinberg, senior vice president of global operations at Boston Safe Deposit & Trust, fees are high largely because of the number of middlemen. Global custodians generally use other banks overseas as sub-custodians. "About 60 to 65 per cent of all cost is because of sub-custodial banks," he said.

> A survey found that US clients were particularly concerned about the high fees charged by custodians

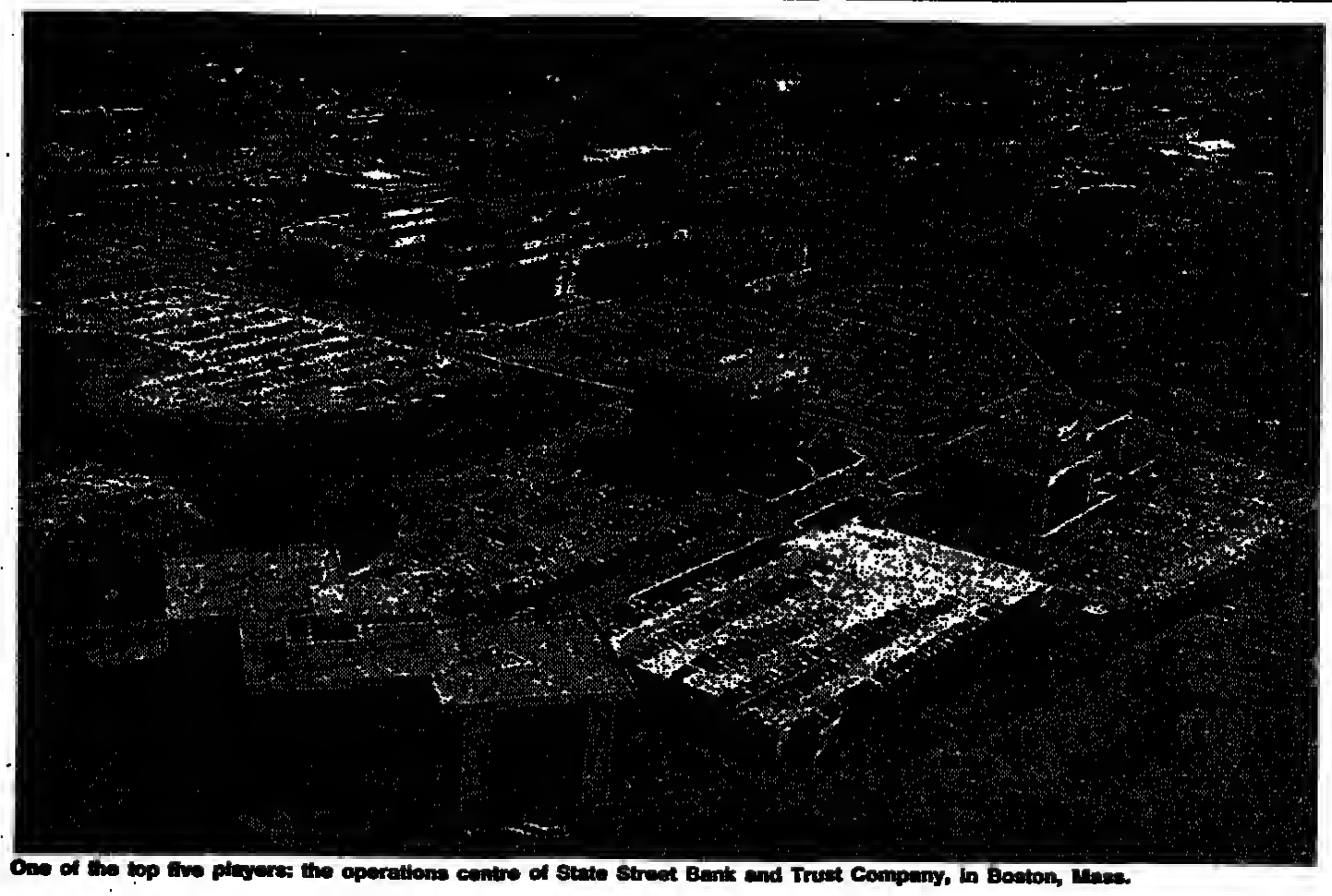
However, increasing industry competition is likely to work in the favour of clients. Northern Trust, for example, now tailors its global custody charges to the size and composition of each client's portfolio.

US institutions by US global custody assets ($m)

1	State Street Bank	17,880
2	Chase Manhattan*	16,036
3	Bank of America	5,500
4	Bankers Trust	5,000
5	Irving Trust	4,800
6	Northern Trust	4,300
7	Boston Safe Deposit†	4,250
8	Citibank	2,500
9	Mellon Bank/Pictet	1,800
10	Harris Trust	1,800
11	Morgan Stanley Trust	1,670
12	First Wachovia	1,570
13	Continental Illinois	1,500
14	Security Pacific	1,200
15	Wilmington Trust	1,143
16	First Republicbank	510
17	National Bank/Detroit	500
18	First Pennsylvania Bank	300
19	Bank of New York	263
20	Norwest Bank Minnesota	220
21	Centerre Trust	154
22	United States Trust	134
23	Citizens & Southern Trust	100
24	Ameritrust	91
25	Mercantile Safe Deposit	28
26	First Interstate Bank	24
27	First Trust	10
28	Marshall & Ilsley Trust†	8
	TOTAL	73,130

* As of March 31 1988. Excludes $18.2bn under global custody
† As of December 31 1987

Source: Pensions & Investment Age



One of the top five players: the operations centre of State Street Bank and Trust Company, in Boston, Mass.

AUSTRALIA

The sceptics are not convinced

AUSTRALIA'S isolation and its relatively new development as an investor in foreign markets have made it a growth area in the use of global custodial services.

Anticipating this, State Street set up shop in Sydney in late 1985, and now enjoys market leadership. It has 170 employees and, unlike its limited competition, its sole business in Australia is global custody.

But, while State Street enjoys high local visibility, some scepticism about the concept persists.

Even Bankers Trust Australia Asset Management (BTAAM), whose ultimate parent, Bankers Trust New York, has a substantial custodial business, is among the doubters. BTAAM, in fact, has no master custodian at all. It prefers to control its A$8bn business in-house, says operations controller Malcolm Halstead.

A diversified funds manager – EquitiLink's financial controller, David Bruce – says the decision as to which custodian the company should use tends to be made by the trustee company responsible for each of its funds, though he personally regards the custodians as much of a muchness.

Mr Bruce says that, in general, his impression is that custodians' computer services are "cobbled together", with accretions of functions, rather than fully-coherent wholes.

Mr Halstead goes further. "I doubt whether such a thing as global custodial services really exist. All that is really offered is a global communications service, with individual services all sub-contracted out," he says. He points out that even State Street uses ANZ Bank, and Westpac its own operation in the Australian markets.

As a result, Mr Halstead has carefully built a series of local custodians throughout the world, gradually increasing the number as business expands. Thus in Europe, where it once ran all its custodian services from London, BT now uses Barclays in Amsterdam, Paris and Geneva, and BHF Bank in Germany. It uses local arms of the Barclays service in Asia, and CIBC in Canada.

In the US, he says, BTAAM does use the services provided by its parent company, though not under pressure. He explains that the reason why the up to A$1bn that BTAAM keeps in the US markets is with Bankers Trust New York is that it is the best for the work. "They wouldn't like it, but we could fire them," he insists.

In Europe, BT did switch from its parent to Barclays, because it was cheaper, offered better service and could allow electronic interfacing with Australia – something BTNY also provides in the US, and which Halstead regards as essential. Fees come last in importance, he says.

Other factors sought by Mr Halstead in choosing his custodians include:

- A sizeable capital base;
- Good insurance; and
- Services such as a cash management sweep.

Meanwhile, he accepts that the quality of custody services is very much dependent on the efficiency of individual markets. He considered switching from Barclays in London, but was persuaded not to by advisers. He was told that no one was any better, and that the weight of turnover was so extreme that he might have difficulty finding anyone else to take him on.

> With 170 employees, State Street's sole business in Australia is global custody

Another institution resisting the State Street embrace is Australia's largest investor, Australian Mutual Provident. AMP gives its business to Chase Manhattan, with whom it has a joint-venture banking operation domestically. However, Pat Boyle, manager corporate services at AMP Investment, denies that the choice of custodian is dictated by these links.

"It might have looked funny if we hadn't chosen them," he says, "but we got other quotes and made sure the pricing and the facilities were as good as, or better than, the competitors."

AMP, like BTAAM, steers clear of a global or master custodian approach. Although Chase looks after more than A$1bn of AMP's assets, other banks get a look in too: AMP's Japanese investments, for example, are looked after by Sumitomo Bank.

State Street vice president Bob Williams acknowledges that there is some scepticism about the concept of global custody, but believes it is mainly among investment management companies. These are often owned by larger financial operations, through which operations like surplus cash management can often be profitably directed, he says.

Mr Williams estimates State Street's total funds under custody in Australia at around US$6bn. Among his clients, he claims the fund management operations of most of the top 10 insurance companies and three of the four large banks.

He expects substantial growth, particularly as the various state and federal government-run insurance and superannuation funds continue to be freed to invest overseas for the first time. "Our new business over 1988 came mainly from these, some very large corporate pension funds, and a few life offices," he says.

Mr Williams also expects Australian managers to be demanding clients. Despite their often recent arrival in international markets, the scale of foreign investment is already large. At the same time, their experience in dealing with sophisticated instruments and derivatives at home means they tend to expect a service in these overseas as well, he says. "We have seen that trend continue to increase."

Demand for State Street's services has also been helped by the increasing complexity of the tax environment for Australian fund managers – particularly for pension funds, which are now subject to both income and capital gains taxes. "Because of this, we have had to increase our investment in systems, people and procedures dramatically," says Mr Williams.

Around the markets, the verdict on State Street's performance seems mostly positive – even if, as Westpac Investment Management manager international, Max Hewer, notes, the nature of custodial services is that alternatives are only looked for when things go seriously wrong. Overall, however, he says he has few complaints about State Street, which handles almost all Westpac's A$1bn offshore funds.

Nigel Weaver, investment manager at Capita, Australia's fifth largest life office, concurs. He believes State Street's size and prestige in custodian services helps to perpetuate its strengths, despite its extensive reliance on snb-custodians around the world. While an institution might use the same local custodian as State Street would use, the key difference would be State Street's greater capacity to demand the highest standards, he observes.

Larry King

Foreign exchange and stock lending

When clients ask for more

AS PENSION fund clients become more sophisticated, they are looking more closely at where they can generate extra returns. This is a double-edged sword for global custodians.

On the one hand, they can raise their profile, selling custody as a net earner for a fund – despite the custodian's fee, the improvement in efficiency should increase overall returns. US pension plans are increasingly accepting the case that the risk/return benefits offered by a good global custodian more than compensate for the fees charged.

At the same time, custodians are constantly squeezed, forced to become more competitive in their pricing, forced into new areas where they can offer services which justify fees to offset their losses elsewhere.

Already in the US, average fees on custody for a typical $100m pension plan have come down by roughly five basis points to an average level of around 20 basis points. Some custodians are known to have taken on loss-leader business.

In two areas in particular, client demand has forced custodians to look hard at their existing products. Stock lending is one of the hottest topics in the industry.

Properly managed, it is a win/win product for custodians. The client earns extra return on assets which previously lay idle, while the custodian earns income by taking a share of the profits as payment for indemnifying the client against market and broker risk.

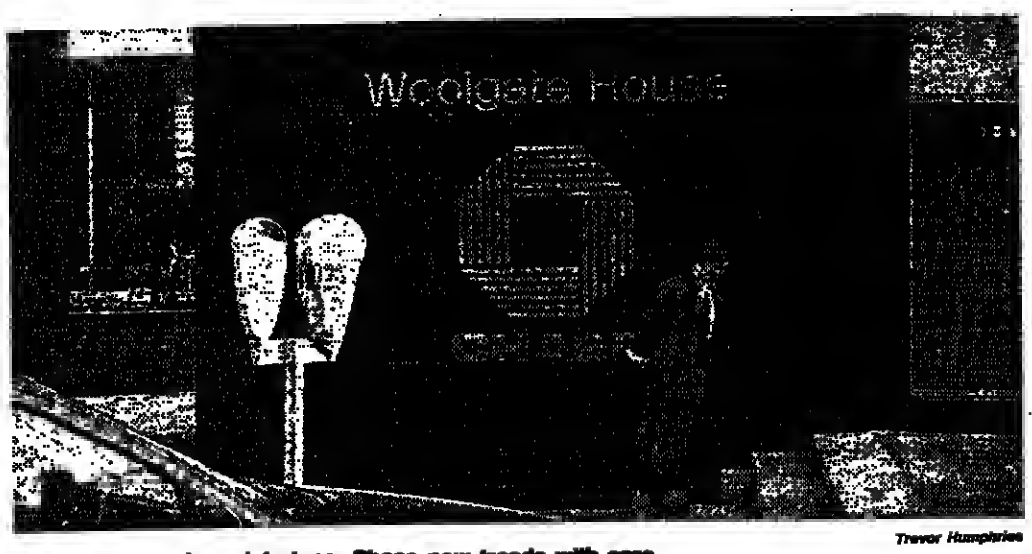
In the US, the flourishing repurchase markets provide the forum for impressive returns on assets. Although spreads on stock lending have come down as volumes have risen, funds with active programmes can earn enough from this activity alone to pay for their custodian's fees.

One consultant cites that the average US client undertaking lending of Erisa (Employment Retirement Income Security Act) assets offsets some 70 per cent of its custody fees, although there is great diversity among custodians in terms of the levels of indemnification they offer clients and the consequent split of the return on assets.

There is also room for caution. Clients who are not fully indemnified need at least to be fully aware of the potential pitfalls. Custodians themselves need to exercise strong front-end controls, to ensure that funds do not go short of stock by lending assets they do not own. As one custodian says: "This is not a riskless product."

In 1983, Chase Manhattan lost nearly $300m in the infamous Drysdale Government Securities case, when the bank had to write off a whole quarter's earnings. That experience has meant that Chase's subsequent forays into the stock-lending business have been tentative.

Other banks have been similarly cautious, so the real expansion of international securities lending has still to happen. Recently the product has been developed as the result of client demand, but this dates only from October 1987.



After an expensive misfortune, Chase now treads with care *Trevor Humphries*

Paradoxically, the rate of return achievable in each market is in inverse proportion to the efficiency of settlement in that market. In the US, where returns per transaction are low, it is a high-volume business. In Australia, turnover is low but returns are currently very good.

The main markets in which it is now common for custodians to lend securities for clients are the US, the UK and Japan. The European clearing houses, Euroclear and Cedel, have both developed securities lending programmes and are becoming substantial markets in their own right.

The UK furnishes a useful example of the size of the stock-lending business. In 1987, volume was estimated at around £1.2bn, but this fell substantially in 1988 as a result of two developments.

First, market makers were unwilling to take the short positions which had been common during the bull market. Second, the decline in volumes meant that stock was no longer required to help meet the backlog of transactions.

The renewal of market activity in 1989 indicates that stock lending will develop anew. Market makers are known to have gone short during the January surge, while volumes have risen to the sort of levels that caused settlement problems in 1987.

The strong performance of the Nikkei index over the last few years has meant that international investors have been prepared to pay high premiums to borrow Japanese stock.

In late 1987, Bankers Trust was the first non-Japanese bank to lend Japanese equities in Tokyo, while last December the bank opened a distribution facility for Japanese stocks in the UK.

What resistance there is to stock lending tends to come from fund managers. Perhaps understandably, they are suspicious of a product which earns returns that might compare embarrassingly with their own performance.

However, there is a genuine feeling that, while stock is on loan, it might be difficult quickly to implement an asset allocation decision. Custodians say this is a matter of product management.

Foreign exchange/cash management is the second area that is of increasing importance to clients looking for extra returns wherever they are to be found. Fund managers have also been at the forefront of changing custodians' management of foreign exchange for their clients.

They made relatively early requests for proof that they were regularly receiving the going rate on their deals. More recently, the 1987 crash focused their minds on ways to achieve downside protection, and that has led to calls for custodians to develop sophisticated hedging products using currency options.

Nevertheless, the area remains confused. Most custodians routinely process their clients' forex, often through the treasury department of the parent bank. However, larger clients often want to manage their own forex, while some custodians do not have an in-house capability.

Debate currently concerns the benefits brought by active cash management. Fund managers think that they have achieved better deposit rates by using commingled cash accounts, but the higher transaction costs of an actively managed cash element means there is no general rule for funds.

For example, last year much attention was given to the arrival of short-term interest funds (Stifs), a product which critics say is of dubious real benefit in terms of return.

Such vehicles are a classic example of product enhancement, which custodians see as necessary to keep clients happy, but which are potentially hard to justify if an extra fee has to be charged.

Andrew Freeman

Electronics lands information in the fund manager's lap

Customised reporting

GLOBAL custodians are starting to talk directly to fund managers. Citibank replaced manual advices on securities movements with electronic reports as far back as 1981.

"The timeliness of advices was subject to the timeliness of the postal system, and threw up a need for clients to know what was happening," explains Mr Stas Berkieta, securities product development manager, Citibank.

Through the introduction of electronic reports, information on the status of securities and the cash position of currency accounts is being delivered right on to the lap of the fund manager. In October, Fuji International Finance became the first management company to receive this type of electronic information from the global custody department at Chase Manhattan Bank.

Fuji was selected as the pilot site to test the bank's Cosmic Reporter System (CRS). Its development had been painstakingly straightforward. All the information was available on a central database, but needed to be refined and put into a format that would keep the customer satisfied.

Forty major UK and US fund managers were contacted. "We didn't differentiate by industry groupings, so a Morgan Grenfell managing pension fund was given the same weight as a Guardian Royal Exchange managing its own assets," explains Mr James Economides, vice president in charge of product development.

The respondents asked for a concoction of information on assets, trades and dividends. It was all too much, admits Mr Economides, and the decision was taken to deliver the data in four stages. Priority was given to corporate actions to report on the status of trades, description of assets, failed trades and cash information on income accruals.

Providing clients with the type of information they want is complicated by the custody matrix. A typical client relationship stretches from the broker, through to the fund manager and down to the end investor. The format and the timing of reporting is staggered between these groups.

Brokers are active market makers and need real-time information on the status of securities to turn transactions around. "Brokers are involved in a clearing-type business which makes it vital for them to know if a trade has settled," says Mr Berkieta.

Timing is less crucial for investors. The large pension funds and insurance companies take the monthly advices

Providing clients with the information they want is complicated by the custody matrix

on asset and cash movements for investment accounting and record keeping.

At the centre of the broker-investor relationship the fund management house has access to the complete product. The flow of information is split between the hired money manager, who needs daily reports on the condition of the assets he wants to sell, and the administrative back-office staff.

At Citibank, Mr Berkieta, believes the importance of trade-related information has outgrown back-office accounting requirements: "The standard fund manager needs to know what has happened with the securities trades, because he's trying to manage his cash and manage his asset position so he can make investment decisions as he goes along."

Fixed-income managers are far more actively involved in managing cash and assets than their equity counterparts. Equity managers are instructed to invest in a particular market, hit a particular return and usually keep 2 or 3 per cent in cash. For the fixed income manager it's more complicated: "He has to be far more aware of the rates he can get from different currencies and become actively involved in managing cash," says Mr Economides.

The stock-market crash sharpened the focus on cash management as a method of legitimately enhancing performance. According to John Gibson, vice president in charge of securities products at Manufacturers Hanover, prior to the Crash and deregulation the demand for electronic reporting systems wasn't there. Today clients are more aware of the markets, and managers are more interested in increasing performance levels.

At Morgan Grenfell Investment Services, daily reports are received on the open cash position of the currency accounts. These are crucial, according to Mr Andrew Summers, the administrations manager. "This informs us of all cash movements and keeps us on top of trades settling, foreign exchange settling and income received," he says.

Morgan Grenfell deals with 20 client-appointed custodians. Mr Summers says the contents of the different reports tends to be standard in terms of presentation and timeliness. All provide physical trade valuations, corporate actions and daily cash movements.

By replacing conventional methods of sending reports by post and telex with PC-based systems, the information immediately becomes more time sensitive – a crucial point for managers. "The few hours that an electronic impulse can save may be the difference between profit and loss," according to Mr Colin Grimsey, vice president in charge of global custody at Chase Manhattan.

The penalty for missing divi-

Mr Stas Berkieta, of Citibank

dends, rights issues, scrip issues and tender offers, can be severe. At Morgan Grenfell, Mr Summers claims that missing a corporate action is the one thing that could be expensive to the management company.

Information on the status of trades is important in markets that are unreliable. Timeliness is crucial in cash markets such as Hong Kong and buy-back markets such as Singapore and Spain, where settlement is required within five and 14 days, respectively. Under these time constraints, npdated reports are essential to keep track of securities that are settling and stock held in registration. The cost of failure is fed back to the fund manager.

The risk is offset in markets where global custodians offer contractual settlement, which allows accounts to be debited and credited on the contract date rather than the settlement date.

"Fund managers aren't interested in status reports so long as the global custodian offers contractnal settlement, because the money will be there," says one manager. But a fund manager faces a dilemma. With the exception of Chase Manhattan, global custodians rarely offer contractual settlement in unreliable markets.

Timely and accurate information has been hard to come by for the global custodian when the overall standard of reporting is set by the banks' sub-custodians.

"A common fault is that sub-custodians are simply not on top of monitoring corporate actions," explains Mr Robert Tetenbaum, managing vice president at financial industry consultants First Manhattan.

Instead of a single integrated report, clients are often subjected to a series of reports from multiple aub-custodians and a notation called "assets held elsewhere" on the master trust report. "Most banks still aren't sophisticated enough to provide the type of fully integrated reporting service that's required by clients," says Mr Tetenbaum.

The same lack of sophistication is a problem encountered with asset valuations. The information has a habit of drying up shortly after the client's asset holdings and asset price are displayed. "They're too factual with no performance analysis, summary by maturity, currency or yield," is a typical complaint.

One service is offered by Bankers Trust. Through its acquisition of the WM Company in September 1987, the bank has been able to blend WM's performance analytics with the regular custody service. Chase offers the same breakdown of reporting and custody, with valuations and risk analysis carried out on a separate accounting system.

More fancy reporting systems are two to three years away, according to Mr Summers. Global custodians are homing into the clients' requests and investing heavily in systems development. Chase will be spending $15m in 1989 on global custody systems, and plans to launch the third and fourth phases of CRS before the end of the year.

"The differentiating quality of the provider of this type of service is going to be the bank that enhances management performance," predicts Mr Grimsey.

John Paul Lee

Monte Titoli is revolutionising settlement in Italy

Curing a bad name

ITALY has faced an uphill task in casting off the awful reputation for inefficiency in share settlement, which it won during 1986 and 1987.

But matters have improved, thanks largely to the Milan-based Monte Titoli securities custody organisation. "It has been an essential innovation, and has overcome the difficulties associated with the settlement of share transactions," commented a Milan broker.

Dino Abbrescia, Monte Titoli's general manager, noted that his organisation gave a good demonstration of its efficiency last year. "Milan's dealing volumes were similar in 1988 to those of 1986, but no settlement problems were encountered. The use of provisional vouchers was down by over 90 per cent," he said.

Though Monte Titoli celebrated its tenth birthday last October, 1988 was its first effective year of normal operation. It had originally been established with trust-company status, meaning that securities were registered in the company's name as trustee; and this gave rise to customer and issuer resistance.

Other factors also inhibited comprehensive centralisation of securities: difficulties over shareholders' rights; banks' attachment to established procedures for securities management; their concern that they would lose income and profits from the supply of securities services; the offer of some issuers to manage and hold their own securities without charge; and Monte Titoli's own reluctance to include financial companies and stock exchange dealers among its members.

The breakthrough came with Law 289, approved by parliament in June 1986. It transformed Monte Titoli from a trust company into a service company, and resolved some of these problems.

Following enactment of Law 289, banks and stockbrokers were empowered to sub-deposit securities with Monte Titoli.

Statistics reveal the progress which has been made in widening the centralised custody of securities in Italy. At the end of 1981, the first year of operation, only five shares, held for a total nominal value below L1bn, had been admitted to Monte Titoli. The custody of bonds started in the following year, and at the end of December 1982 the total nominal value held of the 39 bonds admitted amounted to L652bn.

"When last year ended, Monte Titoli had nearly 300 admitted shares and over 500 bonds. Total nominal values held were L15,219bn of shares and L45,347bn of bonds. Only a handful of minor shares are outside the system, and Monte Titoli now has custody for over 95 per cent of stock market securities," reported Mr Abbrescia.

The number of adherents has also grown. Thirty-one banks led the way in 1981, followed by a further 22 in 1982. There was a pause in 1983 when the Monte Titoli custody scheme gained only five new banking adherents, and both 1984 and 1985 were poor years for winning new members from the banking system. However, a surge of interest in the following two years brought all medium and many small credit institutions into Monte Titoli.

Brokers first signed in 1983. But while the number of brokers has also increased considerably (88 at the end of last year), banks continue to be the driving force. Yet even the biggest commercial banks are out-gunned by a weightier shareholder. Following September's share capital increase, the Bank of Italy has lifted its stake in Monte Titoli to 45 per cent, and the company's deputy chairman comes from the central bank.

Giorgio Bontempi, Banco di Roma's senior inspector for securities, is another board member. "Dealing with all the paper flows is a massive burden. Banks must dematerialise security transactions," he said.

"Initially it was difficult to convince the bank's customers to allow their shares and bonds to be kept in Monte Titoli's custody. But differential charging has proved a powerful incentive. It is costly for the bank to operate its own custody service, so we encourage customers to opt for Monte Titoli," said Mr Bontempi.

Banco di Roma charges L2,800 per L1m of market value every half-year, with a minimum of L15,000 and maximum of L300,000. Charges at Monte Titoli are L2,000 per L1m of market value, with a minimum of L10,000 and a maximum of L225,000.

In common with the other banks, Banco di Roma pays 0.001 per cent of net assets as its annual membership fee, plus L275 per L1m of nominal value for shares, and one half of this charge for bonds. These charges to adherents provide Monte Titoli's income, which last year amounted to L40bn. About two thirds was returned to banks, covering certain costs they incur. Salary expenses for Monte Titoli's 125 staff amounted to L4bn.

Most attention has been given to Monte Titoli and the stock market. The Bank of Italy's role has been catalytic, so it is not surprising that the central bank has taken action in an area for which it is directly responsible. The centralised management of government securities was inaugurated in 1980.

De-materialisation of Treasury bills was boosted by a ministerial decree in 1985; and by December of the following year 84 per cent of eligible securities were held centrally.

When the Bank of Italy's "white book" on payments systems was published two years ago, the centralisation of government securities was described as a success. The same can now be said of Monte Titoli, though some problems still remain, particularly with bonds and with the extension of adherence to dealers and the opening of the system to foreign securities.

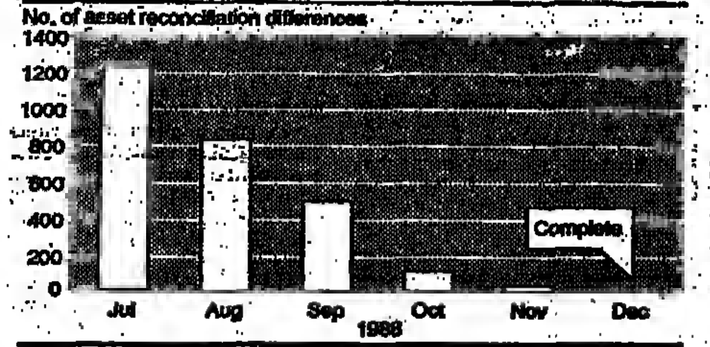
David Lane

Five years' progress at Monte Titoli

	1984	1985	1986	1987	1988
Adherents:					
Banks(number)	70	75	120	173	175
Brokers(number)	15	14	46	78	88
Securities admitted:					
Shares(number)	71	105	241	280	297
Bonds(number)	289	391	483	588	538
Nominal value held:					
Shares(Lbn)	510	1,066	3,930	11,492	15,219
Bonds(Lbn)	6,135	12,801	19,253	34,828	45,347

Source: Bank of Italy and Monte Titoli

Italian settlement: How the problem receded for one custodian



You can still hear the crash in the back office

Costs under pressure

BACK OFFICES are chasing value for money. The disruption in trading activity which followed the stock-market crash has focused attention more sharply on the costs of administration.

"For the majority of institutions in the UK, the crash highlighted the significance of cost accounting," claims Mr Markus Ruetimann, director of securities operations at UBS Asset Management.

In the period immediately after Big Bang attention was focused on front-office developments. Back-office practitioners were left to rue backlogs, mismatched confirmations and high unit costs.

But this changed following the stock-market crash. The lull in trading activity has squeezed profit margins and put pressure on back offices to cut costs. Today the imbalance between trading and settlement is less severe, says Mr Ruetimann. "A trader's 5 per cent margin can disappear if back-office costs are too high."

Cost account centres have been set up at UBS Asset Management to report weekly on trade settlement and measure the costs of domestic and overseas transactions. The company is doing well in the UK at the moment, but money is being lost overseas, says Mr Ruetimann. To solve the problem, UBS is conducting a performance assessment of its overseas custody agents. "The better they perform, the better the cost," he says.

A large part of the company's business is tied into dollar securities. Designated first-class American banks specialising in domestic custody are used to process the transactions. UBS Asset Management is typical of most fund managers in that it relies on local banks or securities brokers to initiate, report and settle foreign trades.

Global custodians provide an alternative to going direct into the market-place. "The global custodian is regarded as a specialist in the securities business wherever it is," says Mr Stas Berkieta, at Citibank.

Mr Edward Collier, a senior consultant at Ernst & Whinney, believes global custody circumnavigates the problems of entering unfamiliar markets to find experienced local custodians.

One official at a fund management firm, who works with several custodians, is convinced that global custodians provide a better service than local banks. "We prefer to deal with a global custodian for cross-border trades, because it's an area where you can't find many good domestic providers," he says.

"The concept of fees is very sensitive," he admits. Global custody services are not cheap, and charges ranging from 15 to 35 basis points on assets in custody are common. This can mean a two- or three-fold increase over domestic custody charges.

Tighter legislation has removed many of the benefits of custody

Global custodians argue that the efficiency they bring to back-office administration absorbs the extra cost. This tends to be a factor that sets global custodians apart from their domestic rivals. A UK clearing bank which charges three times less on the surface can end up twice as expensive once hidden costs are counted. "With the UK clearers there's a lot of extra cost contained in uncompetitive market rates of interest and foreign exchange," claims one custodian.

At Chase Manhattan Bank, Mr James Hockley, vice president in charge of marketing global custody, believes there is an "opportunity" cost that has to be taken into account in choosing a custodian: "Cost constraints come down to the fees paid to the custodian on one side, and the opportunity cost given to the investment management side through the increased efficiency that allow him to reinvest sooner, reduce funding costs and increase returns on liquidity."

By taking away the problem of reconciliation, global custodians enhance the level of management control, says Mr Collier. Valuations and multi-currency reports are standardised by the global custodian, so equities and bonds are priced the same and the same foreign exchange rates are applied across markets.

"One of the reasons for choosing a global custodian should be that it provides a high level of uniformity, regardless of the markets in which you're trading," says Mr Colin Grimsey of Chase Manhattan Bank.

But there is an inherent risk in dealing with a single global custodian, says Mr Ruetimann. Through hiring a network of local custodians, trading risks are spread and the client keeps its independence. Custody fees can also be more flexible: "With one custodian you are obliged to negotiate the fee with a single party," says Mr Ruetimann.

Brokers rarely turn to global custodians, and will either rely on their own networks or use a local agent. International brokerage houses, such as Salomon Brothers and Merrill Lynch, run their own securities clearing operations in the major financial centres and use local custodians only in the more remote markets.

"The difficulty facing a global custodian breaking into this market is often a question of how to outperform the broker," says Mr Tetenbaum, managing vice president at financial industry consultants First Manhattan.

Custody has been a profitable business to be in. Fund managers have earned a lot of money from setting in-house interest rates and foreign exchange rates. However, tighter financial legislation, particularly in the UK, has encouraged disclosure and done away with many of the benefits. "Custody is no longer a profit centre and the costs of running our own operation is now a more severe question," says one fund manager.

John Paul Lee

Since Erisa, master trusts have transformed US pensions administration

Setting the pace for custodians

GLOBAL custodians are only beginning to work out the kinks that their domestic counterparts — master trust banks — have long since tackled.

While pension funds and investment managers have been spoiled by inexpensive, quality services from their master trust banks, their global custodians — often the same entities — have a world of different problems to solve.

The trust business is quite young. Master trust banks proliferated in the mid-1970s just after the passage of the Employee Retirement Income Security Act (Erisa). The master custody field, which caters to the needs of state and local government or public pension funds, didn't come into its own until the early 1980s. The third leg of the stool, global custody services for funds investing abroad, is in its infancy.

"Global custody is still in the late sixties or early seventies, compared with domestic custody. It's a physical [settlement] market with book entry systems," said Murray Steinberg, senior vice president of The Boston Safe Deposit & Trust Co, which has $8.45bn in global custody assets for US tax-exempt clients.

Master trust banks are legally responsible for multiple pension plans with multiple investment managers, and for single plans with multiple managers.

Master trustees provide unitized reporting, accounting and performance measurement services to their clients — primarily corporate pension plans. The same services provided for public funds, endowments and foundations are called master custody services, because such funds must retain legal trusteeship of their assets.

The same distinction exists in the international arena, but the service is commonly referred to as global custody, regardless of whether the bank is a master trustee or a master custodian to a given client.

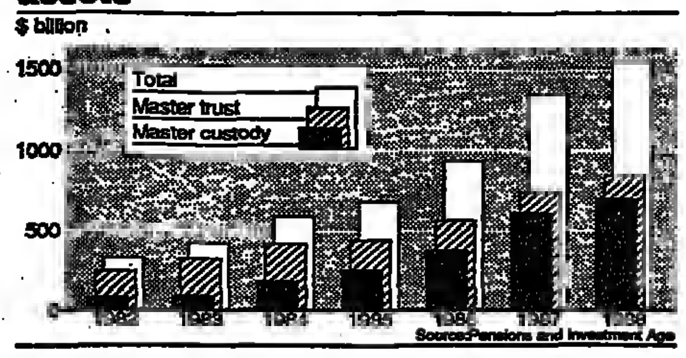
Master trust banks transformed pension fund administration. Before Erisa, companies had many pension plans but no consolidated records on the performance of the plans. Erisa required executives for the first time to keep closer tabs on their assets. Making record-keeping even tougher, the number of managers per plan increased in the decade after Erisa. Honeywell altered pension-fund history by suggesting that its bank use computer power to provide trust services.

Master trust assets have soared, from virtually nothing in 1975 to $832bn at June 30, according to Pensions & Investment Age. Master custodial assets have grown even faster, from a pittance in 1980 to $693bn at June 30.

At slightly over $73bn, global custody assets of pension funds are paltry, compared with domestic assets, but global custody represents the fastest growing sector in the maturing master trust industry.

Both domestic and global trust businesses are fiercely competitive, with a few top banks — State Street, Chase Manhattan and Bankers Trust — hogging market share.

Growth in master trust and custodial assets



In terms of global custody, assets for US tax-exempt institutions, State Street and Chase were neck-and-neck with $17.8bn and $16bn, as of June 30, according to Pensions & Investment Age.

Master trustees provide unitized reporting, accounting and performance measurement services to their clients — primarily corporate pension plans

Size is even more of an advantage in global custody than master custody or trust services, because of competitive pressures to plough capital into expansion and systems refinement.

Global custodians are struggling to keep up with the growth of international investing, especially as public funds go abroad and the demands of long-time, sophisticated international investors increase.

US pension funds have come to demand a certain level of service from banks, and are perfectly willing to switch if they are not satisfied. While funds are happy with their domestic trust/custody services and with the level of fees, global custody is viewed as costly and inefficient.

Hamilton & Co, a consultant based in Princeton, NJ, offers a service that audits custodians and trustees for pension fund clients. The firm recently researched global custody to see if the field was auditable. "The technology isn't there as of yet," said Karen Dontas, managing director. "It still takes weeks, if not months, to settle trades, which makes it difficult for us to evaluate [global custodians], and paper work is caught with agent banks along the line."

The high cost of overseas communications, multi-currency accounting, foreign-exchange transactions, physical securities settlement, and US staff needed to communicate with foreign sub-custodians inflates global custody fees. In addition, global custodians appoint overseas agents called sub-custodians to perform services on a wholesale basis. Sub-custodial charges vary greatly by country and among banks.

With global custody fees up to 10 times higher than domestic fees, banks are scrambling to cut costs. State Street recently "unbundled" its custody fees, using regional fee schedules and weighting fees according to where a client invests.

Competition will provide the greatest impetus for lower fees. New players, such as Morgan Stanley Global Services, have entered the global custody race, and master trust banks continue to build global capabilities.

Mariane Givant Star

Pensions & Investment Age

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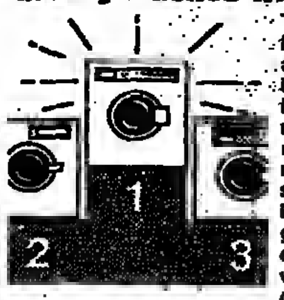
FINANCIAL TIMES
COMPANIES & MARKETS
Monday February 20 1989

INSIDE

Putting the Eurobond squeeze to the test

A painful experience known as a "short squeeze" is concentrating minds in the Eurobond market. The squeeze involves a deal launched for Toyota Motor Credit Corporation and, in the view of many analysts, is proving a test case of the role of lead managers in the Eurobond market. Page 18

Quality washes whiter



Three of the world's biggest kitchen appliance manufacturers have entered the European market in recent months. The rush underlines a major change of strategy among European white goods manufacturers, who for years were obsessed with churning out volume at any price. It took them a long time to see that improved quality was the only way to break out of a vicious circle. Page 34

A new Nabisco twist

The huge takeover of RJR Nabisco by Kohlberg Kravis and Roberts was extraordinary from the start. The latest twist to the saga is an unusual element to the $13.6bn loan financing for the deal. The agent banks handling the financing have spelt out just how banks are to go about reducing their share of the loan. Page 18

Micheli explores new frontiers

Francesco Micheli, one of Italy's maverick financiers (left), has paid L130bn ($96.3m) to acquire nearly 40 per cent of Interbanca, an important private sector medium-term credit bank. Mr Micheli is best known in Italian circles for pioneering the use of stock market raids and hostile bids. The deal could foreshadow an attempt by Mr Micheli to create a new force in private sector merchant banking. Page 19

Market Statistics

Companies in this section

A stronger brew from Guinness

Lisa Wood on the drinks group after Anthony Tennant's arrival

Exactly two years ago Mr Anthony Tennant took on the most unenviable job in British industry when he accepted the post of chief executive of Guinness.

The company was then at the centre of the biggest scandal to hit the City of London in years, provoking the departure of Mr Ernest Saunders, his predecessor. The share price had dived because of a Government investigation into allegedly illegal share dealings during Guinness's takeover of Distillers, the Scotch whisky group, the previous year. Morale was at rock bottom.

Mr Saunders has yet to face trial and the Department of Trade investigation is still continuing. The resulting uncertainty continues to dog Guinness's share price, with the market fearing compensation claims that could arise from the criminal proceedings. The shares are currently trading on a price/earnings ratio at a 16 per cent discount to that for the FT-Actuaries 500 index, even though the company has pursued an aggressive buy-back of its shares.

Mr Tennant, however, has been carefully disassociated by the board from the scandal, and has aggressively set about creating what could be the most profitable drinks company in the world.

Very much the English gentleman, and with a deceptively reserved manner, he says cautiously: "We have got off to a good start, but there is plenty still to do. You have to line up all your ducks before you start shooting them." He inherited a group which, under Mr Saunders, had grown from a market capitalisation of less than £100m to nearly £3bn, moving from its roots in brewing stout to distilling spirits, retailing and health.

But under Mr Tennant, who had previously built up Grand Metropolitan's spirits business, Guinness has made a sharp strategy change, focusing on developing its core drinks businesses and selling the rest, except for some luxury brands, such as the health farm Champneys. The company's new image is that of marketeer of luxury brands.

The greatest challenge to the new management has been United Distillers Group, the spirits division, with seven of the world's top 50 brands, including Johnnie Walker and Gordon's Gin, most of them acquired in the takeover of Distillers.

Distillers had run its spirits business as a loose federation. Literally hundreds of Scotch brands, sold mainly through overseas agents, often competing against each other at cut prices. It has been not been easy to terminate more than 600 agency contracts, with more to follow on the Continent, producing widespread disruption to supplies and considerable expense. In Spain, for example, UDG is currently contesting a £42m award made to a former distributor.

UDG decided that in a static world drinks market it had to concentrate on fewer, well-advertised brands in different price brackets and upgrade the status — and the price — of Scotch. If people drank less, they might be persuaded to drink products perceived as luxurious.

A total review of all the spirits brands, their advertising and pricing, has been under way at UDG for the past 18 months. Prices for bottled in Scotland brands, for example, have been increased by an average of 7.5 per cent in 1988. The volume of sales has already risen slightly, while value has jumped sharply.

But Mr Tennant, whose background is in marketing, knew the key to imposing these disciplines in Guinness's global markets was to have more control over marketing by either acquiring its own distribution or entering into joint ventures. This is the rationale behind the acquisition of Schenley in the US and a series of joint ventures, including ones with Bacardi of the US and Moët-Hennessy Louis Vuitton (LVMH) of France.

Guinness says that where new trading arrangements have been in place for some time, as in the US and UK, the performance this year will be much improved. There should be strong growth potential for Guinness brands in the Far East, particularly Japan, where tax on drinks is to be slashed.

Developing its presence in Asia Pacific was one of the reasons Guinness struck its joint venture agreements with LVMH. However, dissentions within LVMH in the past year have allowed Guinness to become far more directly involved in the group, with a 19.3 per cent stake in one of France's most profitable companies.

Guinness appears to have played a skilful hand, tying in its products with champagne and cognac, two of the most prestigious drinks in the world, without offending French national feeling. Furthermore, the stake is not expected to dilute earnings.

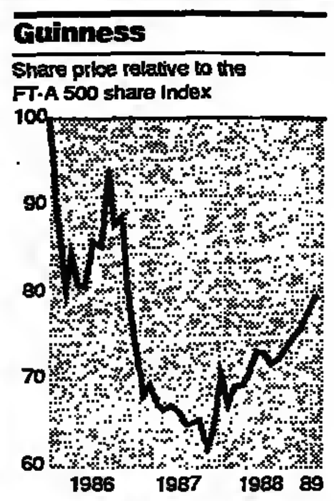
Ms Michelle Proud, an analyst at County NatWest Woodmac, is bullish about the prospects for Guinness's spirits portfolio, despite poor worldwide prospects for brown spirits such as Scotch. She says: "United Distillers is not selling brown spirits. It is seeking with some success to market smart brands which consumers believe make a positive statement about their lifestyle." Guinness's other major business, contributing some 30 per cent of turnover, is its brewing side.

Anthony Tennant: lining up the ducks before shooting

It was Mr Saunders who began revitalising the Guinness stout brand in the UK and cut production costs. This strategy has been successfully extended under the new management into aggressive new product development, including Kaliber, the largest alcohol-free brand in the UK.

A challenge for the division is how to further develop overseas sales of the stout brand, already sold in 28 countries, against fierce competition.

Guinness's strategy again is to start developing joint ventures, in this case with lager brewers, since stout is complementary to blond beers.



All this means the City is looking for pre-tax profits of about £490m for 1988, when Guinness reports shortly. That compares with £408m last year and with forecasts of up to £589m in 1989.

In the longer term, the group, which is strongly cash generative, may be looking to grow a third leg to a business which in the next decade may face a fierce anti-alcohol lobby.

Perhaps the news last week that Mr Alain Chevalier, the deposed chairmen of LVMH, might be employed as a consultant to advise Guinness on "specific diversifications" is a tiny indication that Mr Tennant has already started thinking about those very issues.

Bonn, inflation and other problems

The Fed is not thanking Stoltenburg for reminding it of its inflation woes, reports Anthony Harris in Washington

The Germans are not popular in this town at the moment. Despite denials, their government is widely suspected of having turned a blind eye towards the Libyan poison gas plant until the project became publicly known.

Their opposition to Nato missile modernisation is awkward. This is not only an important element in President Bush's peace-through-strength strategy, but would offer a convenient issue on which to open the question of burden-sharing. With no new burden, it is much harder to raise the subject.

Finally, Mr Gerhard Stoltenburg, who no doubt heard more than enough about both these topics during his recent visit to Washington, won no friends at all by announcing what he called the "official" Federal Reserve forecast of 6 per cent inflation as soon as he was back in Europe. The Fed does not, of course, publish inflation forecasts.

What it does do, like any central bank, is work out staff projections of inflation, and this is no doubt the number Mr Stoltenburg got hold of. There is a crucial difference between a projection and a forecast. A projection simply tries to measure current trends, while a forecast must also take account of policy responses.

The staff projection, in other words, tells the Federal Open Market Committee whether it needs to take action to change the trend. The Fed projection is in line with private sector projections, as might be expected. What Mr Stoltenburg may not have known is that most private forecasts see 5 per cent as a peak. What is also open to dispute is the interpretation of these numbers.

The Germans are traditionally worried simply about the inflation numbers, *tout court*: any rise in prices is bad. This makes perfect sense in an economy which has enjoyed a strong currency for decades, and is currently in very large current account surplus.

The US, on the other hand, has spent three years trying to correct an enormous trade deficit, mainly through a massive devaluation, so their situation is different.

In an important sense, indeed, there has not been enough inflation in this country. For a long time, import prices did not respond at all to the devaluation, and even now they are rising at a moderate pace. This helps to explain the persistently high level and renewed growth of imports, and the equally persistent American accusations against their trade partners of dumping.

Mr Alan Greenspan, therefore, always stresses a distinction between two kinds of price increase: price adjustments, whether in response to devaluation or to the US drought. These he regards as healthy market signals. What he calls "embedded inflation" is the process in which unrelated domestic prices start rising in response to these adjustments.

In Britain this idea is familiar as the wage-price spiral, because wage settlements have usually provided the biggest push to costs. In the US, the trade unions have been extraordinarily docile through the Reagan years, though there is some suspicion of a little wage push recently. But Mr Greenspan is worried over a wider front.

Two recent events have suggested other kinds of embedded inflation. US car prices have risen in response to the rise in imported car prices, and food prices rose sharply last year, well before the effects of the drought had worked their way through the production chain.

Do these moves represent a spreading inflation psychology in an overheated economy or is there some more innocent explanation? One can make a case either way. Inflation-worriers can point to the record profits just reported by the US motor industry, and argue that they have exploited an inflation climate.

But it can also be argued that announced prices bear only a tenuous relation to the prices car buyers actually pay in the US, since discounts and cash-back offers now run throughout the year, even during a sales boom. The profits can be explained simply by the high level of sales, since motor industry profits are notoriously sensitive to volume.

The rise in food prices looks more sinister. The industry seems with one accord to have marked up prices in anticipation of high raw material costs rather than waiting until they had to pay them.

Retailers can plead that their margins have been painfully compressed by excessive competition following the building boom set off by the first Reagan budget. Margins were last reported at 1.5 per cent of sales, down by half in three years.

All the same, there is some suggestion of inflation psychology here, as there is in the successful campaign by the tobacco industry to protect its profits by raising prices as sales fall.

The wage question is the hardest to judge. Pessimists point to the fact that employment costs have risen by nearly 5 per cent in the last year, while business productivity is rising at only about 1 per cent annually.

However, a large part of the costs increase represents higher social and health insurance charges, and if these are simply recovered through sales, the price increases would surely qualify as needed adjustments under the Greenspan test. The real question is how far wages themselves are responding to somewhat higher consumer prices.

The answer seems to be that they are responding, but on a scale which would lead any British Chancellor to uncork a bottle of champagne. Hourly earnings are up by 4 per cent, against a 4.4 per cent rise in retail prices.

Even this modest figure, which means a fall in real wages, is dominated by the service sector, where there is a shortage of people ready to work for minimum wages all along the Atlantic seaboard. In manufacturing, they were up by less than 3 per cent.

The much-debated question of labour market pressure is equally ambiguous. A recent study by the National Bureau of Economic Research concluded that so far from being a likely cause of excessive wage pressure, the growth of employment in the US until recently was a response to low wage pressure.

However, the demographic growth of the US labour force is now slowing down, and economic growth is not. The NEBR findings may be true of the past, but not of the future, and this argues again for a Germanic stance by the Fed. It does not alter the conclusion, though, that up to now Fed policy has been remarkably well-judged.

Economics Notebook

The success of Italy's failure

NOT THE least of several difficulties in writing about the Italian economy is the problem of balancing its successes against its failures. Last Thursday, for example, Istat, the nation's statistical agency, was reporting that the growth in Italian industrial output last year was the highest since 1980. At the same time, Mr Giuliano Amato, the Treasury Minister, was lamenting the fact that the government's budget proposals and, therefore its 1989 deficit target, are being increasingly deformed by parliamentary committees.

The industrial output story reflects the bright side of the Italian economy, still motoring along after five successive years of above European average economic growth. Mr Amato is too genial a fellow to represent the dark side of anything, but he is linked to the government's flailing, and failing, efforts to bring pnblic spending and the growth of public debt — now L1million billion — under control.

Thursday's two stories were a reminder of the close relationship between the government's total failure to curb the growth of deficit and debt and the satisfactory state of the real economy. Failure has contributed to success in that last year's 3.9 per cent growth was notably led by domestic consumption, fortified by the government's loose fiscal stance. Success, by contrast, is feeding failure because the tranquillising effect of growing national riches means too many politicians believe deficits are a technical problem rather than an immediate threat to the national well-being.

In a newspaper interview, Mr Amato unintentionally illustrated this point with a story of how on Thursday the budget committee of the lower house decided unanimously that four or five of this year's anniversaries, including the French revolution and the birth of the painter Piero della Francesca, should be "properly" celebrated. So members wrote into the budget L5bn to L6bn (£2m to £3m) per celebration and when asked by the Treasury undersecretary how they proposed to pay for these parties, they pointed to the global fund in the capital budget.

Cut and bruised

The unfortunate government representative "finished up cut and bruised after he had pointed out that above all else, this practice is illegal," recounted Mr Amato laconically. One must sympathise with the minister. He is the author of a medium-term plan for stabilising the public debt by 1992 and, despite having the prime minister's full backing, he was unable to round up his colleagues behind a draft budget which would hit the plan's L115,800bn deficit target for this year. Even before the profligate parliamentarians went to work, the onturn looked likely to be at least L130,000bn.

At the very least, what Mr Amato needs is a good old-fashioned crisis of one sort or another to help sober up the political climate. From whence could it come? The markets are less than ecstatic about evidence of the government's growing political weakness and are firmly refusing to look at debt issues carrying maturities longer than a year. The sale last week of five-year bonds failed miserably when only L250bn was taken up out of an offering of L2,000bn.

But this does not presage an early crisis of confidence nor an investors' strike because the Treasury is having little difficulty in selling short-term notes, albeit with real yields of close to four basis points above current inflation levels.

What about a flight of capital? This is at least theoretically possible now that Italy has lifted most exchange controls which had previously curbed domestic investment in foreign securities. Since these restraints were taken away last antumn, however, the problem has been one of capital inflows rather than the reverse. Last year's net inflow was L11,500bn, two and a half times more than in 1987.

Nevertheless, the fanfare which will usher in the era of free capital movement in the European Community in July next year may help to wake up Italian investors to the attractions of foreign portfolios. Until now, foreign instruments have barely been marketed in Italy but the banks are beginning to gear up and soon the government could face real competition for domestic savings, particularly when the ultimate curbs are lifted on holding foreign bank accounts and investing in short-term foreign securities.

In order to guarantee the L80,000bn to L90,000bn a year needed to finance its debt, the government will have little option but to continue paying the "Italian premium" on interest rates that the market already demands. Without any convincing restructuring of the national budget, this premium is bound to rise. Then, perhaps, the real economy will start to hurt with private investment crowded out, exports sinking under the pressure of an overvalued currency and imports putting some Italian companies and their employees out of business.

John Wyles

THIS WEEK

KEY ECONOMIC statistics this week include today's figures for UK money supply in January, which will show the strength of bank lending and economic activity.

Most closely watched will be M0, the narrow measure consisting almost entirely of notes and coins in circulation, and M4, which includes bank and building society deposits.

The consensus of analysts' forecasts, compiled by MMS International, the financial research company, is for M0 to have fallen by 0.8 per cent and M4 by 0.1 per cent. M4 lending is expected to have risen by £6.5bn.

Building society figures for January are released on Friday covering new commitments and receipts. They are also likely to show the impact of high interest rates and give a guide to trends in the housing market.

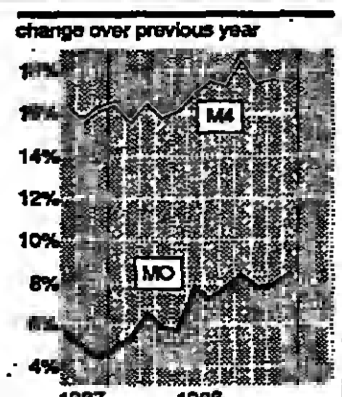
Preliminary gross domestic figures based on the output measure are published tomorrow and will show growth in the last three months of 1988. The consensus is for a rise of 0.7 per cent.

In the US, Mr Alan Greenspan, chairman of the Federal Reserve, starts his Humphrey-Hawkins testimony at the Senate Banking Committee tomorrow. Analysts will want to know how divided the Fed and administration are following the rejection last week by President George Bush of the need for a further tightening of monetary policy.

US statistics are likely to be dominated by the consumer price index for January on Wednesday. A 0.5 per cent rise is expected.

French trade figures for January on Friday could show a widening deficit, intensifying fears about French exports and the effects of buoyant consumer credit on imports.

Analysts are also worried that strong investment spending, which is expected to continue into 1989, may have sucked in plant and machinery, particularly from West Germany. In December the deficit reached FFr4.2bn (£377m), up from FFr3.7bn in November.



A group of non-Opec producers meets in London tomorrow to thrash out possible cuts in production in hopes of reaching a co-operative agreement with Opec. Markets will react positively to a firm proposal.

Other events and statistics (with MMS International consensus in brackets) include:

Today: Mr Onno Ruding, Dutch Finance Minister, speaks in Paris on European financial integration.

Tomorrow: UK manufacturers and distributors' stocks in fourth quarter.

Wednesday: US Federal Budget in January (-$1bn). Two year Treasury note auction. UK construction — new orders in December.

Thursday: UK Treasury questions in House of Commons. December Energy trends. US durable goods orders in January (-2.5 per cent). Ten-day auto sales. Five-year note auction. Japanese household consumption expenditure in December.

Friday: Japan, funeral of Emperor Hirohito. UK engineering sales and orders in December.

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

Toyota issue calls stabilisation into question

AN ECU-denominated Eurobond for the Toyota Motor Credit Corporation, launched by Credit Suisse First Boston on January 30, is proving a test case of the role and responsibilities of lead managers in the Eurobond markets.

The issue is the subject of a so-called short squeeze, where traders who sold bonds they did not own are subsequently being forced to pay a premium by the lead manager to buy them back.

The selling occurred because firms participating in the deal felt it offered an unattractive yield to investors. The Ecu market had been depressed for some weeks and the deal was further undermined by the launch of another Ecu-denominated issue which was perceived to be more generous.

Of an issue totalling Ecu100m, CSFB now controls commitments for Ecu120m of bonds. It is only possible to buy bonds at a price around 105, well above the original issue price of 101%.

The short selling occurred during what is known as the stabilisation period. Stabilisation is a practice that began in the 1970s and allows the lead manager to influence the market in a bond for the first few weeks of its life by buying paper to keep the price at respectable levels before secondary trading begins.

It is controversial because the cost of stabilising an issue is deducted by the lead manager from the underwriting fees it pays to the syndicate of banks that places the bonds with investors. "It means we don't know how much we are actually paying for our allocation when we decide whether to join a management group," said one syndicate official.

In effect, stabilisation is a legalised form of market manipulation, and it is this characteristic that arouses most controversy. It is a grey area among the requirements for lead managers made by the various bodies charged under UK law with regulation of the Euromarkets.

One new-issue trader, who did not want to be named, said that a crucial chance to restrict the abuse of new issue practice had been missed by UK authorities when the Financial Services Bill was drafted.

The jurisdiction of London's Eurobond business was widely debated at the time of the legislation, with the result that the Association of International Bond Dealers (AIBD) was given the status of a designated investment exchange, allowing it to keep its hroad independence intact.

Under the Financial Services Act, which came into force last April, the manipulation of a securities market was deemed a criminal offence.

However, at the time of the act the intention was to strengthen the sanctions applied to insider trading rather than to regulate international wholesale markets with their stabilisation practices.

An additional clause in section 48 of the act provided an exemption in cases where the the lead manager observes the Securities & Investments Board (SIB) rules on stabilisation within an authorised exchange.

SIB rules are a combination of general points and specific requirements, stating, for example, that only the lead manager can undertake stabilisation and setting periods during which stabilisation can occur.

In fact, the SIB stabilisation period is about to be shortened to incorporate recent recommendations by the International Primary Markets Association (IPMA), the trade association that represents underwriters.

According to Eurobond officials, the SIB rules form a safe harbour for lead managers. The rules do not address the question of short selling by parties other than the lead manager, nor do they define when a false market is deemed to have been created by the abuse of stabilisation procedures.

Thus, argue lead managers, it is actually more useful to address the implications of market practices such as short squeezes than it is to ask whether they are legal. "If you're careful, you can easily stay within the letter of the law," said one. "But the abuse of lax stabilisation rules is hardly likely to attract investors to the Euromarkets."

CSFB has maintained from the start that it conducted legitimate buying of the Toyota bonds in order to fulfil its stabilisation responsibilities. It says the short sellers were responsible for the subsequent squeeze on the issue and argues that it is not in breach of any rules.

Competitors counter that the squeeze is a direct result of stabilisation rules that are inappropriate and should be changed.

These managers argue that the way in which issues are launched means co-managers often hava to take on risk which they are often keen to shift as fast as possible. For example, a house might enter a deal it considered mispriced for relationship reasons, intending to sell the paper back to the lead manager.

There are growing calls for the new issue procedure to be radically altered, with a so-called take-and-pay trading system replacing stabilisation. Essentially, co-managers would pay for their allocation at a final price, knowing exactly what their costs were, before commencing trading.

This would encourage tighter controls by lead managers, who would need to price their issues more closely to the market because they could not rely on stabilisation to shepherd a mis-priced or deliberately aggressive deal. Some lead managers would welcome another implication of a revised system – borrowers could no longer demand unrealistic funding targets.

By the standards of previous squeezes, the price CSFB is rumoured to be charging those who sold the Toyota issue short and need to cover their positions is not exorbitant.

Previous, infamous squeezes have seen prices as high as 120, so CSFB is jndged by many in the market to be making a sharp point, rather than punishing the short sellers.

Andrew Freeman

EUROCREDITS

KKR lenders make use of sub-participation process

THE FOUR agent banks handling the loan financing for Kohlberg Kravis and Roberts' acquisition of RJR Nabisco have taken the unusual step of spelling out how banks in the syndicate are to go about reducing their share of the $13.6bn loan.

With some 45 banks in the US, Japan, Europe and the Middle East lending from $100m to $1bn apiece, the process of sub-participating the loan could easily disintegrate into a free-for-all, as lenders frantically try to reduce their exposure to the largest corporate takeover in history.

Sub-participation is the selling off by banks in the syndicate of some – sometimes most – of the exposure to the lender with a promise to pass through the relevant interest and principal payments to the buyer, typically a smaller bank. While the technique was first used by the American banks, it is now a widely-used method of sharing risk in the Euromarkets and in Japan.

Typically, each lender in a loan is free to sub-participate to whom and when he pleases.

However, the four agent banks for this loan financing – Bankers Trust, Chase Manhattan, Citicorp and Manufacturers Hanover – have devised a so-called co-ordinated distribution for sub-participation.

Significantly, any portion of any bank's loan that is sold will not be deducted solely from that bank's exposure, but will reduce the exposure of all lenders on a pro-rata basis. In this way, banks whose network of sub-participating banks is poor will not be forced to sit with more exposure to the borrower than they can handle.

This feature becomes especially important when one considers that about 45 per cent of the loan has been placed in Japan where banks took chunks of $500 and $600m apiece. However, there is an extensive network of regional banks, insurance companies and leasing firms likely to be interested in such a high-yielding asset and the banks could easily spread their risk around Japan.

The pro-rata distribution of sub-participations will allow KKR's lenders all around the world to tap the huge capital base in Japan, thus reducing their risk.

Also, banks that do sub-participate cannot sell chunks smaller than $15m, effectively keeping smaller institutions out of the transaction. Furthermore, banks must pass on all of the interest to the sub-participant, keeping none of it for themselves as is typical in these transactions.

The last rule suggests that KKR's banks believe the unusually generous interest rates on the loan will be needed to persuade banks to take even relatively small pieces.

The agent banks have divided the administrative responsibilities for the sub-participation process among themselves, keeping track of loan sales on a central register.

Meanwhile, Japan's Export-Import Bank has made its first private project finance loan since it was given the authority to make such loans last March. The loan, arranged by Bank of Tokyo, is a seven-year $25m facility to finance part of the construction of the Bosphorus Hotel in Istanbul. The remaining $25m in financing is in the form of a 12-year syndicated loan, also arranged by Bank of Tokyo.

Centel Corp, a US-based telecommunications and cellular company, has raised its first borrowing in the Euromarket. Since the purpose of the loan is to raise the company's profile outside the US, it sought participation exclusively by non-US banks.

Swiss Bank Corp has arranged for it a $50m four-year revolving credit with a margin of 27½ basis points over Libor. There is a 12½ basis point commitment fee and, if more than 50 per cent of the facility is drawn, a utilisation fee of 7½ basis points.

The loan includes some step-up pricing to a margin of as much as 40 basis points and commitment fees of 20 basis points if Centel's BBB+/Baa-1 credit rating is lowered below investment grade.

This sort of step-up pricing is becoming increasingly common for certain US corporate borrowers in the Euroloans market as event risk looms larger in the minds of bankers.

The alternative is to include a "change of control" clause – generally strongly resisted by borrowers – which would force the borrower to default if the company was acquired or became the subject of a management buy-out.

Pechiney, the French aluminium company, has mandated Citicorp to arrange its first-ever Euro-commercial paper programme. Other dealers on the $500m programme, which includes a multi-currency option, are Credit Suisse First Boston, Merrill Lynch, Chase Manhattan, Société General and Crédit Lyonnais.

Norma Cohen

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	2,323.8	0.2	2.0	11,340.6
Prev	8,312.0	2.1	236.3	9,813.7
Other	4,410.3	186.7	701.8	4,153.6
Prev	6,705.3	15.9	681.5	1,218.6
Secondary Market				
US$	12,980.6	990.6	3,582.4	5,527.4
Prev	16,892.3	1,404.8	5,264.4	5,625.7
Other	38,793.9	1,465.2	4,465.9	21,904.6
Prev	18,049.0	2,008.5	4,220.6	22,483.0

	Cedel	Euroclear	Total
US$	9,145.8	27,601.8	36,747.6
Prev	10,544.5	36,806.8	47,351.3
Other	25,048.9	31,033.1	56,082.3
Prev	24,023.2	31,359.2	55,382.4

Week to February 16, 1989

Source: AIBD

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Eidensha Co.φ◆	50	1993	4	5⅛	100	Nomura Int.	5.125
Nichii Co.φ◆	500	1993	4	4⅛	100	Nomura Int.	4.125
Bank of Tokyo§◆	100	2004	15	3⅜	100	Bk of Tokyo Cap.Mkts	3.375
Kansai Paint Co.φ◆	150	1993	4	4¼	100	Yamaichi Int. (Eur)	4.250
Nippon Business Cons.φ◆	100	1993	4	4⅜	100	Nomura Int.	4.375
Rur.&Ind.Bk W.A'tralia◆	200	undated	(b)	10bp	100	CSFB	-
B.Comm.Italiana(HK)(c)◆	100	1999	10	10⅜	101⅞	Salomon Brothers	10.089
BNL Overseas (Curacao)◆	200	1994	5	10	101½	Nomura Int.	9.608
Cariplo (H.Kong)◆	60	1999	10	10⅜	102	IBJ Int.	10.049
Den Danske Bank◆	50	1999	10	10¼	102	Sumitomo Trust Int.	9.926
Kansallis-Osake-Pankki◆	200	1996	7	10	101⅞	Nomura Int.	9.620
Abbey National B.S.(j)◆	75	1994	5	10¼	102	Morgan Stanley	9.726
CANADIAN DOLLARS							
Fed. Business Dev.Bank◆	75	1992	3	12	101⅜	Swiss Bank Corp.	11.433
AUSTRALIAN DOLLARS							
Swedbank◆	60	1991	2	0	75.367	Bqe Paribas Cap.Mkts	15.188
Kansallis-Osake-P.(k)◆	60	1991	2	0	74.63	Deutsche Bk Cap.Mkts	15.758
Privatbanken(k)◆	60	1991	2	0	75.06	Deutsche Bk Cap.Mkts	15.424
D-MARKS							
Hypobank Int.◆	100	1994	5	6½	101¼	B.Hypotheken-und W-Bk	6.202
SWISS FRANCS							
Tokai Bank(d)§★★◆	150	1994	-	¼	100	Credit Suisse	0.250
Tokai Bank(e)§◆	150	1994	-	½	100	Credit Suisse	0.500
Carter Holt Harvey§	(l)	1994	-	(5½)	(100)	S.G. Warburg Soditic	★
Seitetsu Kagaku(i)§★★◆	80	1994	-	½	100	Nomura Bank (Switz)	0.500
Bank of Tokyo(h)§◆	200	1994	-	¼	100	UBS	0.250
Bank of Tokyo(h)§★★◆	300	1994	-	¼	100	UBS	0.250
Takada Kiko Co.§★★	40	1994	-	(½)	100	SBC	★
STERLING							
British Aerospace◆	100	2014	25	10¾	100.048	BZW	10.744
World Bank◆	100	1999	10	10	100½	Baring Brothers	9.919
Swedish Export Credit◆	100	1996	7	10⅜	101½	UBS (Secs)	10.066
HMC M'gage Notes 102◆	100	1994	5	11	101⅜	CSFB	10.532
FRENCH FRANCS							
EIB◆	750	1999	10	9¼	101.30	Societe Generale	9.047
LIRE							
Fiat Finance & Trade◆	100bn	1994	5	12	101½	B. Comm. Italiana	11.586
PESETAS							
Council of Europe◆	10bn	1994	5	12	101.16	J.P. Morgan Espana	11.683
LUXEMBOURG FRANCS							
EIB★★◆	300	1995	6	7⅝	100¼	BNP (Luxembourg)	7.572
Lease Plan Beheer★★◆	300	1992	3	7½	100½	C.d'Epargne de l'Etat	7.308
Finansskandic AB★★◆	300	1991	2	7½	100½	BGL	7.223
YEN							
Bergen Bank(a)★★◆	2.5bn	1993	4	7	101⅝	Drexel Burnham L'bert	6.525
Abbey National B.Soc.◆	20bn	1994	5¼	5⅛	101¾	Daiwa Europe	4.736
Marubeni Int.Fin.(f)◆	10bn	1999	10	7.45	102	S.G. Warburg Secs.	-
Toronto-Dom. Bk(g)◆	5bn	1994	5	7⅜	101¾	Yamaichi Int.(Eur)	6.702

★Not yet priced. ★★Private placement. φWith equity warrants. §Convertible. ‡Floating rate notes. ◆Final terms. a) Redemption linked to Nikkei stock index. b) 10bp over 6-month Libor. Exchangeable into 5-year notes at 6-month Limean which can be changed back to undated notes. Additional $100m on tap. c) Call at 100 March 1992. d) Put yields 2.221%. e) Put yields 1.966%. f) Coupon in A$. g) Redemption linked to Nikkei stock index. h) Put yields 2.202%. i) Put yields 1.975%. j) Additional $75m on tap. Extendible at issuer's option to April 1999. k) Listed private placement. l) Issue amount depends on success of exchange offers. Indicated redemption at 102½. If not converted, to yield 6.025%. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

US regulators take over 25 thrifts

By Anatole Kaletsky in New York

THE THREAT of a widespread run on troubled savings and loan deposits has forced US regulators to take over 25 insolvent thrift institutions and raised the possibility that the Federal Reserve Board will need to act as lender of last resort to the S&L institutions.

The series of 25 S&L takeovers announced on Friday night by the Federal Deposit Insurance Corporation (FDIC) again underlined the fragility of confidence in the US thrift system despite the $90bn rescue package announced by President Bush.

Reports that the FDIC's action had been conditioned on guarantees of liquidity granted by the Federal Reserve Board also drew attention to the possibility that S&L insolvencies remained a constraint on the monetary policy pursued by the central bank.

In theory, the lender of last resort to the S&L system should not be the Federal Reserve but the Federal Home Loan Bank Board and its system of 12 regional Home Loan Banks.

The Federal Homs Loan Bank of Dallas admitted last week, however, that some of the sick thrifts in its region were having difficulty with their reqnests for emergency lending. The key problem appeared to be their lack of good collateral to back the cash advances they required from the Dallas Bank.

These credit problems were also causing concern about the Dallas Home Loan Bank itself and, on Thursday, the Dallas bank's president, Mr George Barclay, revealed that his bank and the FHLBB were negotiating emergency standby facilities with the Federal Reserve.

Although the Fed would not comment on whether such an agreement had been formally worked out, the FDIC said on Friday night that "measures have been taken to ensure that liquidity will be provided as needed" for the 25 institutions it took over.

FDIC officials had previously indicated that they would not be able to acquire any more thrifts without liquidity guarantees from the FHLBB or the Fed.

The 25 thrifts taken over on Friday had aggregate assets of $12.72bn. They were located in 14 states, indicating again the extent to which the S&L crisis had extended beyond Texas to become a nationwide problem. The FDIC took over another 11 institutions, mostly in Texas, earlier this month, immediately after the announcement of President Bush's rescue plan.

Under the Bush plan, the FDIC would take over more than 200 insolvent thrifts and would replace the FHLBB and Federal Savings and Loan Insurance Corporation as the savings industry's guarantor and main regulator.

However, until Congress passes nsw legislation, S&L takeovers must formally be carried ont by the FSLIC, which then appoints the FDIC to act as a "conservator." However, the FSLIC has virtually run out of money, while the FDIC has not yet been authorised to borrow the $50bn it will require to liquidate the sick S&Ls.

This absence of funds, as well as the cumbersome administrative arrangements, may have contributed to the lack of confidence in savings institutions brought under the FDIC's control.

The deposit outflows have been further exacerbated by the FDIC's attempts to prevent insolvent thrifts from trying to attract funds by bidding np interest rates. As institutions have reduced the "insolvency premiums" they offered depositors, they have lost funds to better-capitalised banks and thrifts.

Micheli acquires 40%stake in Interbanca

By Alan Friedman in Milan

MR FRANCESCO Micheli, one of Italy's maverick financiers, has paid L130bn ($96.3m) to acquire nearly 40 per cent of Interbanca, an important private sector medium-term credit bank.

The stock was bought through Finarte, Mr Micheli's publicly quoted holding company that controls both an art auction house in Milan and Sviluppo, an investment banking business that has Swiss Re and Morgan Grenfell as minority partners.

Mr Micheli, who is best known in Italian financial circles for having pioneered the use of stockmarket raids and hostile bids, acquired the Interbanca holding from Mr Florio Fiorini, a Geneva-based Italo-Swiss financier who operates by means of a holding vehicle called Sasea.

Mr Fiorini's attempt to acquire control of Interbanca was blocked last year and since then the institution's main shareholder – the privately owned Banca Nazionale dell'Agricoltura (BNA) – has been under pressure from the Italian central bank to improve its capital ratios by raising fresh funds.

The Interbanca deal is potentially significant for two reasons:

● It could be a prelude to an attempt by Mr Micheli to create a new force in private sector merchant banking; and

● It could have some bearing on the future fortunes of Count Giovanni Auletta Armenise, the controlling shareholder not only of Interbanca, but also of the undercapitalised BNA.

Mr Micheli, whose control of 39.64 per cent of Interbanca gives him a share stake in Interbanca similar to the block controlled by Count Auletta's BNA, said at the weekend he had no hostile intentions and planed to meet the BNA chief as soon as possible to discuss "areas of cooperation."

The Milanese financier, whose 1985 raid on the BI-Invest property and financial group and subsequent sale of the BI-Invest shares to Montedison scandalised leaders of the Old Guard business establishment, said he had not informed Count Auletta of his purchase before completing the deal.

Interbanca, with L27bn of 1988 net profits, L350bn of net equity and more than L5,000bn of outstanding loans, is a smaller and private version of Mediobanca, the powerful Milan merchant bank.

By acquiring the Interbanca stake Mr Micheli has taken a step toward his goal of creating a medium-term financial institution that is an alternative to the more established Mediobanca.

Bond HK offshoot raises profits 52% to HK$304m

By John Elliott in Hong Kong

BOND CORPORATION International, the Hong Kong offshoot of Mr Alan Bond's Australian business empire, has unveiled a sharp increase in pre-tax profits to HK$304.51m (US$39m) for the half year ended December 31, a 52 per cent increase on the same period in 1987.

The results, however, are considerably lower than forecasts made by the company six weeks ago in a circular to shareholders. This was connected with a bid by Mr Bond to buy out their 33.8 per cent holding in the company for HK$2.20 a share.

The circular forecast interim net profits after taxation and minority interests of HK$299.8m, whereas the net figure announced by BCI on Friday night was HK$236.7m. Turnover for the six months was HK$399.12m, compared with HK$46.48m a year earlier.

Last Monday minority shareholders in the company rejected the buy-out offer by a three-to-one majority. Various Hong Kong companies are believed to be considering whether to make a bid for the company or for its main asset, the Bond Centre prestige office development in Hong Kong. All but 1,200 sq ft of the 1m sq ft centre has been let.

Dai-Ichi buys 2% of Suez for FFr700m

By Ian Rodger in Tokyo

DAI-ICHI Mutual Life Insurance, Japan's second-largest life insurance company, has bought a 2 per cent stake in Compagnie Financière de Suez of France for roughly FFr700m ($111m).

The move follows similar, if much larger, investments in overseas financial institutions by other leading Japanese life insurance companies.

Nippon Life Insurance, the largest life group in the world, bought a 13 per cent interest in Shearson Lehman Hutton in early 1987 and Yasuda Mutual Life Insurance has bought a stake in Paine Webber.

The purchases are being made because the Japanese insurance companies have been inundated with cash in the past two years and are constantly looking for new places to invest it.

They are also seeking to upgrade their skills in the banking and securities businesses in anticipation the Japanese Government allowing them to participate in these sectors in the near future.

And, in Dai-Ichi's case, at least, there is an interest in the evolution of European financial markets after 1992.

It is understood that Dai-Ichi, in addition to taking an equity stake in the Suez group, has recently given substantial funds to Indosuez Asset Management Japan for management.

The Suez group already has two significant Japanese shareholders, Tokai Bank and Chiyoda Life Insurance, which bought stakes, of less than 1 per cent, when the group was privatised.

● Pioneer Electronic, the audio and video electronics group, yesterday reported a 32 per cent increase in consolidated pre-tax profits for the three months to the end of December, reports Stefan Wagstyl in Tokyo.

Profits rose to Y13.3bn ($104m), thanks to a 10 per cent increase in sales to Y123bn. Domestic sales rose 12 per cent and overseas sales by 7.5 per cent.

The company said new products sold well, including Compact Disc players.

Hoogovens strengthens balance sheet with sale

By Laura Raun in Amsterdam

HOOGOVENS, ths Dntch steelmaker, plans to sell a cement factory subsidiary for a book profit of about Fl 250m ($119m), which will be used to strengthen the balance sheet.

The sale to Belgian Cement Group is in line with Hoogovens' policy of concentrating on its core activities of steel and aluminium. The subsidiary, Cement Factory IJmuiden, produces about 1m tonnes of blast furnace cement a year and employs 190 people.

Hoogovens' share capital has dwindled to 18 per cent of the balance sheet but will be lifted – as will reserves – by an unspecified amount through the disposal. Securities analysts had widely expected a share issue to be announced when Hoogovens' share trading was suspended last Friday.

Cement Factory IJmuiden was established by Hoogovens and Belgian Cement Group'e First Netherlands Cement Industry unit as a 50-50 joint venture. In 1982, Hoogovens took full control.

Hoogovens will continue to supply blast furnace slag to First Netherlands, involved in cement and concrete mortar. Its main business is in the construction market in the Netherlands and Germany.

● Nijverdal-Ten Cate, the Dutch plastics and textile group, and the French textile company DMC intend to set up a 50-50 joint venture in household textiles.

DMC will buy half of Ten Cate Houstex Products, a bed linens unit in Almelo that will absorb Ten Cate Colorweave, a towel division. The aim is to improve efficiency. DMC is involved in bed linens and towels through its Descamps subsidiary in Paris.

Swiss bank posts record results

By John Wicks in Zurich

SWISS VOLKSBANK, the first of Switzerland's "big five" banks to announce 1988 results, booked a 4 per cent rise in net profits to a record SFr120.1m ($76m). The balance sheet total went up 7.4 per cent to a new high of SFr34.57bn.

Commission income from securities business fell by 16.7 per cent to SFr197.9m, but the bank reported an 11.4 per cent improvement in earned interest to SFr1.46bn.

Speaking in Berne, Mr Walter Rügg, president and chief executive officer, said the bank had anticipated a decrease in commission income from the secnritiee sector and hsd emphasised its lending activities. He added that the decline in securities commissions should be halted this year.

The bank's earnings from foreign exchange and precious metals trading rose 6.9 per cent to SFr95.9m.

Volksbank is to look at the possibility of increasing its presence in the European Community on the basis of the experience gained at its London operation, which is said to have ehown satisfactory profits last year. However, Mr Rudolf Bosshard, executive vice-president, said that these were below the bank'e "ambitious aims."

The bank is to propose unchanged dividends of SFr75 per share and SFr7.50 per participation certificate. It is also planning a rights issue of 74,005 shares at a price of SFr1,100 on the basis of one new ehare for 16 existing shares or 160 participation certificates.

Labatt Brewing 'plans European deals'

By Robert Gibbens in Montreal

LABATT BREWING, which is losing its leading place in the Canadian beer league to the merged Molson Companies and Carling O'Keefe, is expected to make two deals in Europe and may acquire a major interest in Stroh Brewing of Detroit.

Labatt Brewing, part of the Brascan conglomerate, recently negotiated a deal for several British brewers to produce and distribute its beer in Britain.

Industry sources predict it will invest in two Italian breweries in advance of the 1992 elimination of European trade barriers.

Labatt also wants to expand in the US and has made and distributed Budweiser in Canada for Anheuser-Busch for many years.

Stroh has hired Morgan Stanley to find a buyer for 49 per cent of its equity and Labatt is known to be keenly interested. Stroh's plant capacity and distribution system is under-utilised and it is seeking to make foreign brands under licence.

● Varity Corporation, Toronto-based farm equipment and diesel engine group, is keeping its US$260m offer for Fruehauf open despite another rebuff from the US company's management.

Varity has made two bids for Fruehauf, aiming to retain its Kelsey Hayes autoparts subsidiary and selling off its trailer-making business. The latest offer was made late in January and expired on Friday.

Mr Victor Rice, Varity chairman, said the offer would remain open for "a reasonable time" if talks between the two parties could resume.

Fruehauf has said it would welcome any other bids but none has yet materialised. Its management has a recapitalisation plan on the table.

Fruehauf has $860m ontstanding in debt, incurred after a 1986 management buy-ont. Varity offers Fruehauf stockholders Varity stock and notes and would assume $575m of the debt.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Greenspan's spell may be broken

YOU CAN fool some of the people all of the time and all of the people some of the time, bnt you can't fool all of the people all of the time.

Mr Alan Greenspan, chairman of the Federal Reserve Board, may do well to reflect on these wise words of Abraham Lincoln's as he pnts the finishing touches on his Humphrey Hawkins Act testimony, due to be delivered to Congress on Tuesday.

The semi-annual Humphrey Hawkins appearance, at which the Fed chairman gives his fullest official assessment of monetary conditions and outlines central bank policies for the year ahead, could not have come at a more appropriate time.

The post-election rally which was so powerfully catalysed by Mr Greenspan's last Congressional statement has been followed by the bond market's steepest decline in a year.

There were, of course, several clear reasons for the sudden switch from euphoria to gloom – most notably, the absence of any serious budget proposals from the White House, and the lack of interest displayed in the Treasury's long-term bond auction by the two all-important armies of "bigger fools" tbat dominate market mythology, the US private investors and the Japanese insurance companies.

However, beneath these tangible concerns, a much more important psychological change has started to become apparent in the market. Investors bave at last hegun to question the Fed's determination to control inflation.

After behaving as if the Fed's promise to "err on the side of monetary tightness" were already an accomplished fact, the analysts are finally realising that the hattle against inflation lies ahead, not behind.

The bond market had been eating out of Mr Greenspan's hand for months, ignoring the widely-publicised political splits between his Reagan-appointed board of governors and the more cautious presidents of the local Federal Reserve banks and giving him the benefit of the doubt as he raised his estimates of the US economy's potential for non-inflationary growth from 2½ per cent to 3 per cent.

In addition, it has been discounting numerous signals from within the Fed, not to mention from the White House, Congress and the presidential election candidates, that Americans viewed recession as a mnch more immediate threat to their economic well-heing than inflation.

Even the optimists among the Wall Street bond houses have started calling on the Fed for "action not words," to quote Kleinwort Benson, or asking, like Smith Barney: "Is the inflation genie out of the bottle?"

Salomon Brothers, the biggest bond dealer and not traditionally a firm to put itself out on a limh against the Fed, became alarmed a week ago, noting that "policy hesitancy unsettles the market," and commenting that the central bank "provided no clear signs that it had noticed the rather sizeable employment gains registered in January."

On Friday, Salomon went further, warning that "perceptions that the Fed is back on a tigbtening track after the recent hesitation are critical to the bond market – any hint of a tepid Fed response to adverse inflation surprises would challenge the bond market's fragile stability."

Which hrings us hack to Abraham Lincoln. Since the drought-induced economic slowdown last snmmer, Mr Greenspan has some people on Wall Street fooled ahout the tightness of monetary policy.

The sceptical hold-outs have been frequently quoted in these columns, pointing out that the US economy was drifting slowly but steadily into the inflationary late stage of an exceptionally long and powerful economic cycle.

These people occasionally had a sobering effect on the consensus among investors that the US economy remained on a trend towards lower inflation, preventing long-term interest rates from drifting much below 9 per cent until the aftermath of the Presidential election.

In the period following his comment about "erring on the side of restraint," Mr Greenspan might well have concluded that he had all of Wall Street under his spell.

Such was the surge of enthusiasm for bonds and the apparent confidence in anti-inflation policy, that there really seemed to be no need for further tightening – especially in the eyes of economists, perhaps including Mr Greenspan, who believe instinctively in investors' prescience and the financial markets' accurate forecasting powers.

Only if that spell is now broken will Mr Greenspan face the kind of dilemmas that make the chairmanship of the Fed one of the toughest jobs in the world.

Even optimists among bond houses have started asking the Fed: "Is the inflation genie out of the bottle?"

If he submits to the market's will and tightens policy aggressively and overtly he will delight bond investors. But he will hring down on his bead political calumny and puhlic indignation.

Most important of all, he will run a small, but not insignificant, risk of tipping the US and world economies into a recession which neither the US financial system nor the government's hudget are in any state to withstand.

It may seem odd to warn against the dangers of both inflation and recession at the same time. The fact is, however, that at this stage of the economic cycle, with excess resources hecoming scarce, not only in the US but on a world-wide scale, the path between the two dangers is a very narrow one.

Mr Greenspan's ultimate objective of managing a "soft landing" for the US and world economies requires a constant juggling of potentially contradictory targets for growth, price stability and trade adjustment.

Over the next year or two, *this policy will require him* to take bigger risks with inflation. From the point of view of general economic welfare, Mr Greenspan will prohably be quite right to take these inflationary risks, remaining more *alert* to the *dangers* of an economic slowdown or a further deterioration in the US trade deficit. However, in the next few years, what is good for the US and world economies may not be quite so good for the *bond market*.

Anatole Kaletsky

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	9.31	9.06	9.08	9.31	6.27
Three-month Treasury bills	8.76	8.86	8.48	8.86	6.21
Six-month Treasury bills	9.02	9.05	8.78	9.05	5.74
Three-month prime CDs	9.55	9.45	9.25	9.55	6.77
30-day Commercial Paper	9.30	9.15	9.00	9.30	6.66
90-day Commercial Paper	9.45	9.30	9.05	9.45	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wks ago
Seven-year Treasury	99[illegible]	[illegible]	9.25	9.22	9.10
20-year Treasury	101[illegible]	[illegible]	9.13	9.12	8.97
30-year Treasury	98[illegible]	[illegible]	9.04	9.04	8.88

Money supply: In the week ended February 6, M1 grew by $0.7bn to $787.4bn

NRI TOKYO BOND INDEX

December 1983 = 100	16/2/89	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	148.5	4.64	148.49	149.73	145.3
Government Bonds	149.34	4.32	149.21	149.17	145.53
Municipal Bonds	150.96	4.86	150.49	149.34	145.26
Govt.-guaranteed Bonds	152.07	4.90	151.85	150.12	146.84
Bank Debentures	141.72	4.60	141.51	140.73	137.26
Corporate Bonds	148.79	5.39	148.42	146.52	144.26
Yen-denom. Foreign Bonds	152.85	6.11	152.75	149.92	146.90
Government 10-year†	4.88	-	4.88	4.82	5.23

† Estimated par yield. Source: Nomura Research Institute

UK GILTS

Rally falters over inflation fears

THE RALLY in the gilt-edged securities market began to show signs of faltering last week as optimism over the Government's ability to engineer a relatively painless slowdown in economic activity gave way to fears of resurgent inflation.

Economic policy-makers in Britain now face the possibility that, while the Chancellor's policy of high interest rates might result in a cooling of demand pressures, inflation and a recovery in the trade account, there will he a mismatch of all three due to lags.

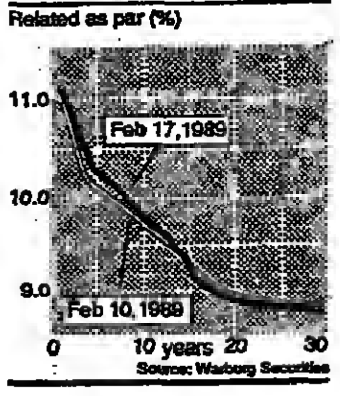
Signs that this is occurring were seen last week with a large fall in retail sales in January coincident with a jump in core wholesale and retail price inflation. It also appears as if the momentum left in the economy is enough to rednce recorded unemployment by a large amount, thereby adding to fears of labour market tightness and pressures on pay.

The gilts market ended lower for issnes shorter than 12 years, while the Bank of England's purchases of stock continued to put upward pressures on prices for longer-dated stocks. The market-making fraternity was feeling decidedly squeezed by the end of tha week and there seems little prospect of relief in sight.

The longer end of the market continues to be well supported hy the dominance of the Bank, whether it is there in fact or not. There continues to be a marked reluctance on the part of investors to sell the long end for fear of not being able to re-enter at an appropriate price level.

UK gilts yields

Related as par (%)



Source: Warburg Securities

However, the market has been through periods in the recent past when it thought that prices would remain impervious – by virtue of the Bank's activities – to the deterioration in the economic outlook, only to see prices fall in later weeks. The foreigner does not have the domestic institutions' qualms abont selling stock.

Last week was a bad one for the Government. A poll – albeit only one – showed its popularity had slumped and the Prime Minister's recital of her zero inflation aim was made to look hollow by virtue of the numbers released.

The Treasury's argument about the perverse effects of mortgage interest payments on the retail prices index is well understood and accepted by virtually averyone. The point is the underlying rate of inflation and there was nothing in the latest hatch of figures to reassure.

There was little to surprise from a rise in wholesale prices, *but its extent* – 1 per cent in January to give an annual rate of 5.8 per cent – was worrying. Manufacturers usually raise prices early in the year, but the size of the rise suggests that margins have continued to widen.

This seems especially perverse given the level of interest and exchange rates – a level that has been established for some months.

Then there was the 0.6 per cent rise in the retail prices index in January, taking the annual rate to 7.5 per cent from 6.8 per cent in December. The key figure in the RPI was the rate ex-mortgage interest rates: up to 5.5 per cent from 5.1 per cent.

Mr David Walton at Goldman Sachs points out that further investigation of the inflation numhers reveals that prices for retail goods were about 4 per cent higher than a year earlier (last January they were just 2.4 per cent up), but that services inflation was around 6 per cent higher than a year earlier. This is the component largely responsible for the step-up in the underlying rate.

Productivity in the services sector grows at a much slower rate than in manufacturing, which means that costs have been rising much faster and are being passed on in the consumer. The burden of downward adjustment to the core rate of inflation will therefore have to be shouldered by the traded goods sector (less than 25 per cent of the economy).

Although there is manifestly no evidence of it to date, the hope still remains that margins, which remain the largest single component of the rise in wholesale inflation, will absorb all. The problem is wages.

Pay settlements have risen from 6 per cent this time last year to 7 per cent. With RPI inflation rising towards 8 per cent (and some say more than that) before it peaks, there is a risk that settlements will edge even higher. However, the welcome falls in unemployment mean that labour market tightness might be around for longer than most think.

● A gremlin consigned the final paragraph of last week's column to the ether. It said that comments about the Bank's attitude to not making losses on it dealings applied specifically to swaps and that there had been no change in the Bank's view, as laid out in its pre-Big Bang discussions, on other dealings.

Simon Holberton

FT/AIBD INTERNATIONAL BOND SERVICE

YEN STRAIGHTS	Issued	Bid price	Chg on week	Yield
ALLIED-SIGNAL 6⅛ 93	20.0BN	104¼	0	5.52
AVON CAPITAL 6⅛ 91	26.0BN	101	0	6.34
BARCLAYS O/S INV 6 96	40.0BN	103	0	5.17
B.F.C.E. 5⅛ 96	20.0BN	103¼	0	5.20
CANADIAN PACIFIC 6⅛ 96	10.0BN	107⅛	-⅛	5.45
DENMARK 6⅛ 92	20.0BN	103⅝	0	4.75
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollar. C.cpn = current coupon. CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on FEBRUARY 17

UK COMPANY NEWS

BGT urges shareholders to reject Clydesdale bid

By Vanessa Houlder

BAILLIE GIFFORD Technology, the besieged high technology investment trust, yesterday wrote to shareholders urging them to reject the "unwelcome and inappropriate" offer from Clydesdale Investment Trust.

BGT dubbed the offer "an attempt to acquire promising unquoted investments cheaply". The bid came at a point where much of the groundwork on its investments had been done but the full benefits still lay ahead, it said.

BGT also highlighted its role in the management of several companies in its portfolio. Those companies had "grave concern about the fulfilment of their potential without BGT's continued involvement," it said.

Furthermore, BGT said, the offer — which takes the form of loan stock with a cash alternative — would dilute the prospects for long term capital growth in exchange for low fixed income.

Moreover, the deal offered participation in Clydesdale, which had seen its net asset value decline by over 28 per cent since the Merchant Navy Officers' Pension Fund, the present management, took control, it added.

BGT also criticised the form of the offer. In common with past investment trust bids, it is based on the "formula asset value" of the target company — where the FAV differs from the net asset value in the level of compensation payable to the trust's managers.

BGT said that the FAV calculation might work for quoted investments where valuation was a simple matter of stock market prices. It was not, however, appropriate for BGT, since unquoted companies made up about half its portfolio.

The scope for disagreement on valuation was substantial and — as the price would be fixed after the sale — investors would have signed away their bargaining power, it said.

BGT said that Clydesdale was offering low quality paper or cash at a significant discount. Clydesdale proposes to match 98.5 per cent of BGT's FAV with 8½ per cent convertible unsecured loan stock and 93.8 per cent of the FAV with the cash alternative.

Bond sells its Morgan Grenfell stake

Bond Corporation, the Australian concern controlled by Mr Alan Bond, has sold its 3.8% stake in Morgan Grenfell, the City merchant bank. The reduction resulted from share sales made over the last few weeks.

Bond shed another interest in Morgan Grenfell when it sold Dewey Warren, the insurance concern, to Robert Fraser, the financial services group last year. Dewey owns 5.6 per cent.

KIO buys stake in Triplex Lloyd

The Kuwait Investment Office has bought a 7.87 per cent stake in Triplex Lloyd, the foundries and engineering group.

REA abandons AEP bid

By John Thornhill

DOUBTS SURROUND the future structure of Anglo-Eastern Plantations, a holding company for Indonesian rubber, cocoa and palm oil plantations, after REA Holdings, the commodities trader which owns 38.9 per cent of AEP, said it would not make a full takeover bid.

REA made its decision after the Chillington Corporation, an engineering, plantation and trading company which owns 38.5 per cent of AEP, indicated that it would not accept a proposed offer price of about 94p per share.

Mr Richard Robinow, REA chairman and AEP director, who also sits on the Chillington board but who did not take part in its deliberations, said that AEP now stood at a watershed.

AEP's initial project to develop the Tasik palm oil estate in Indonesia was now complete and the company had to expand to take on new ventures.

It would seem logical for AEP to do so either by becoming a separate company with a broader share structure or by being absorbed by one of its major shareholders, he said.

Mr Geoff Moores, Chillington finance director, said that there was a price for AEP which Chillington would find difficult to turn down but it had not yet been reached.

Mr Michael Nightingale, currently chairman of both AEP and Chillington, said that after several years in the doldrums AEP now stood to gain from the opening up of the Indonesian economy. "It is only in the last 18 months that the door has opened."

Romney and Raeburn in voluntary liquidation

By Nikki Tait

ROMNEY and Raeburn Investment Trust, the two Lazard-managed trusts which are currently subject to a reconstruction scheme, were formally placed in voluntary liquidation on Friday. The assets will now be transferred to the new Guernsey-based investment company, Lazard Select.

The net asset value of Romney on the valuation date for the reconstruction was 447.17p per unit of ordinary stock.

Accordingly, a holder of 1,000 units of stock, will receive 447.17 participating shares in Lazard Select.

The relevant figure at Raeburn was 571.466p, and a holder of 1,000 units will receive 571.466 participating shares in Lazard Select. Dealings in the participating shares are due to start today.

Burford debenture raises £20m

By Clare Pearson

BURFORD Group, the property investment company acquired last November by Chartsearch, USM-quoted business information concern, yesterday raised £20m worth of 25-year money via the placing of a first mortgage debenture issue.

The stock is secured on shop and office buildings in Birmingham and London owned by Burford, now part of Burford Holdings which embraces the newsletter interests of Chartsearch and Burford's property investments.

It was priced at £99.03 with a 10⅝ per cent coupon to give a gross redemption yield of 10.64 per cent. Barclays de Zoete Wedd carried out the placing.

Burford was the first acquisition made by Mr Nigel Wray, deputy chairman of merchant bank Singer & Friedlander, after he became chairman of Chartsearch last summer.

Regentcrest

Regentcrest, property investor and developer, announced a jump in pre-tax profits from £434,000 to £2.15m for the six months to October 31 1988.

In addition, the company released £852,000 from the property revaluation reserve and said that in future profits and losses arising from the disposal of properties previously revalued would be calculated by reference to original cost. The element of the revaluation reserve realised would be included in the pre-tax result.

Turnover for the half year rose to £15.09m (£4.98m). After tax of £1.08m (£1.15m) earnings per 10p share came out at 4.82p (6.28p).

Yeoman Inv Trust

Yeoman Investment Trust net asset value was 140.5p per 1p capital share and pre-tax revenua rose from £3.03m to £3.41m, at the year ended December 31 1988. NAV a year earlier stood at 124.8p.

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

Morgan Crucible Conv. Pref. (Section: Industrials).
Sandell Group (Buildings).
Secure Trust (Banks, HP).

MB fires another salvo in war of words with Elders

By Vanessa Houlder

MB GROUP yesterday fired yet another salvo in its war of words with the consortium involving Elders Investments, which it deemed to be "living in an Alice in Wonderland world".

The statement follows a circular sent to MB shareholders on Saturday in which the consortium argued in favour of its proposed £810m cash offer for Metalbox Packaging, a subsidiary of MB.

It also urged shareholders to vote against the proposed merger of Metalbox Packaging with Carnaud, a French packaging group, at an extraordinary meeting this Friday.

So far, 16m proxy votes, representing 5 per cent of the company, have been cast prior to Friday's meeting. Of these, 98.7 per cent have been in favour of the merger.

Mr Brian Smith yesterday reiterated his opposition to the consortium's plans which he described as "self-seeking attempts to gain profit for themselves at the expense of shareholders".

Metal Box Packaging was not for sale and never had been, he said. Even if it was, MB "would have serious reservations about selling to this type of makeshift consortium which brings no industrial synergy, a mountain of debt and the involvement of a partner who could damage the close relationship of the business with the world brewing industry," he added.

The major shareholders in the consortium are Elders Investments, an offshoot of Elders IXL, the Australian brewing, pastoral and finance group and Ball Corporation, a US packaging company.

Swiss take stake in Platon

By Vanessa Houlder

A NEW shareholder has taken a 13.8 per cent stake of Platon International, the troubled instrument and information technology group that recently raised £1.28m from an open offer and subscription.

Quaestus, a Swiss institution, has bought 914,565 shares in the company, which is traded on the USM. Most of these came from members of the Safeguard consortium which acquired a 28.6 per cent holding following last month's open offer. Quaestus said the shares would be held as an institutional investment.

The consortium was composed of City and Westminster Financial, a securities houses, and Nationwide Holding and Payearth, which are both private investment holding companies. City and Westminster Financial has reduced its holding to 6.51 per cent; Payearth has reduced its interest to 1.09 per cent and Nationwide Holdings has reduced its stake to 8.02 per cent.

It was also announced yesterday that 3i, which used to hold 7.3 per cent of the company, no longer has a notifiable stake following recent share disposals.

The changes to Platon's shareholder register follow a hoardroom shake-up, announced at the time of the open offer.

BET expands in Europe

By John Thornhill

BET, the international services group, has strengthened its European distribution network through the acquisition of a Dutch distribution group for an undisclosed sum.

United Transport International, BET's distribution services company, has acquired the Vlaardingen-based Monden Group, which runs a distribution service, primarily for goods from the Far East.

The Monden Gronp has a turnover of Fl 6m (£1.63m) and net assets of Fl 250,000. It will work in "close co-operation" with Seatrans and Seawheel, two of UTI's Dutch companies. BET has also acquired Tom Whyte (Plant Hire), a privately-owned plant and equipment hire company based in Glasgow, for £445,000 in shares.

Memcom rights approved

By Philip Coggan

SHAREHOLDERS IN Memcom International, the struggling electronic filing systems group, have approved both a capital reconstruction and a change of name to the Telford Group.

In the past Memcom has recorded repeated losses and has accordingly launched a £1.7m rights issue and the capital reconstruction to eliminate a deficit on the profit and loss account.

There were few signs of shareholder discontent at the meeting on Thursday.

However one did say: "Every year, you say we're going right to the top, but we come back next year and something's gone wrong."

The outcome of the meeting was not in doubt since interests friendly to the board have more than 50 per cent of the shares.

Mr Zohair Awartani, chairman, reported that major orders had been received and a £250,000 loan, secured over the stock of a subsidiary, had been cleared.

Markheath lifts stake in Frogmore

Markheath, the UK arm of the Australian group, Adelaide Steamship, has lifted its stake in Frogmore Estates, the property development and investment group, to 16 per cent. The stake has been built up steadily since last July when a 5 per cent holding was disclosed.

Companies associated with Adelaide Steamship have also lifted their holding in Commercial Union by 4.15m shares to 42.2m, representing 10.01 per cent of the capital.

Markheath's holding in Randsworth Trust, a property investment and development company, has been reduced from 6 per cent to an undisclosed level below 5 per cent.

BM claims 25% of Brit Building

BM Group, the mechanical engineering company, has added to its stake in British Building and Engineering Appliances. With the purchase of a further 1,501 shares it now speaks for 25 per cent of the equity. Mr Donald Blackmore, BB & EA's finance director, said: "We are somewhat puzzled as to why they have increased their holding. We understood last autumn their intentions were friendly."

ML builds up its electronics activities

By Clare Pearson

ML HOLDINGS, the aerospace, defence and electrical engineering group, has made its second acquisition in about a month in the field of electronic equipment distribution.

It is paying £4.2m to buy Leicester-based Townsend Coates.

The acquisition is being financed by a £2.7m cash payment, an issue of 41,209 ML shares, and a £1.45m unsecured loan note which matures in 1992.

Townsend Coates distributes a range of passive electronic and electromechanical devices but is principally involved in the assembly and distribution of connectors.

The deal will further expand ML's component activities following the £4.3m purchase last month of Radiatron, a London-based distribotor of passive electronic and electromechanical devices.

Townsend Coates' profits, before proprietorial drawings and investment income, were £500,000 on £4.7m worth of turnover in the year ended last April. Net assets were £3.9m.

Sinclair Goldsmith rises 68%

Sinclair Goldsmith holdings, the surveyor and estate agent, reported pre-tax profits up 68 per cent from £560,000 to £939,000 for the half year to November 30 1988.

This result was achieved from turnover almost doubled to £3.2m compared with £1.7m last time.

Net interest receivable for the period rose to £97,000 (£68,000) and after tax of £335,000 (£214,000) earnings per 10p share came ont at 5.54p (3.17p). The board has declared an improved interim dividend of 1.5p (0.9p).

Mr E L Langton, chairman, said that in spite of a degree of uncertainty in the City, the market was still reasonably buoyant.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Ashtead, Throgmorton Dual Trust.
Finals- OCE UK, Provident Financial, Temple Bar Inv Tst, Vickers.

FUTURE DATES

Interims-	
Macro 4	Mar. 2
Manganese Bronze	Feb. 27
Finals-	
Butlers	Feb. 23
Commercial Bank Near East	Feb. 27
Cussins Property	Apr. 11
EFT	Feb. 27
Unilever	Feb. 28
Unilever NV	Feb. 28

FINANCIAL TIMES STOCK INDICES

	Feb. 17	Feb. 16	Feb. 15	Feb. 14	Feb. 13	Feb. 10	1988/89 High	1988/89 Low	Since Compilation High	Since Compilation Low
Government Secs.	89.08	89.15	88.90	88.96	88.98	89.10	91.43	86.18	127.4	49.18
Fixed Interest	98.55	97.80	97.85	97.87	97.56	97.37	98.67	94.14	105.4	50.53
Ordinary	1678.1	1667.2	1677.4	1675.0	1658.1	1680.9	1714.7	1349.0	1926.2	49.4
Gold mines	154.7	159.4	158.6	163.0	165.4	167.1	312.5	154.7	734.7	43.5
FT-Act All Share	1058.89	1055.20	1060.25	1060.89	1053.37	1065.13	1082.84	870.19	1238.57	61.92
FT-SE 100	2042.9	2033.8	2047.5	2049.1	2032.7	2056.1	2096.2	1694.5	2443.4	986.9

CONSTRUCTION CONTRACTS

Building materials trade deficit moves deeper into the red

By Andrew Taylor, Construction Correspondent

BRITAIN's building materials trade deficit rose to almost £1.9bn during the first nine months of last year. This compares with a deficit of just over £2bn for the whole of 1987.

At this rate the trade deficit on building materials and components last year is likely to have been about £2.6bn compared with only £538m in 1982.

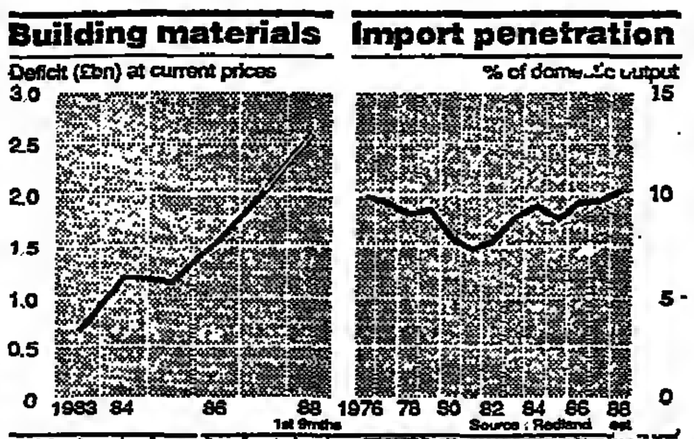
The latest monthly statistics of building material sales and prices, published by the Environment Department, show how imports have increased during the past three years as UK construction output has risen sharply.

The pace of building work has left some UK material suppliers struggling to keep pace with demand. The value of imports of building materials into the UK has risen from £2.3bn in 1983 to £3.5bn in 1987.

Last year building material imports are thought to have risen to more than £4bn. Timber and wood products are likely to have accounted for about a quarter of this total.

This is hardly surprising given the size of the forestry industry in Britain. In 1984 a £1.5bn deficit for timber and wood products accounted for almost the entire trade deficit for all building materials.

More worrying has been the rise in imports in other types of building materials, particularly of higher value mechanical and electrical products. The trade deficit on air conditioning and central heating boilers and radiators rose to almost £100m during the first nine months of last year.



Mechanical and electrical services have become increasingly important aspects of construction and can account for more than 50 per cent of a modern office block in the City of London.

Cement imports, which increased last year because British producers lacked the capacity to supply all of the demands from a booming construction industry, added a further £50m to the trade deficit during the first nine months of last year. Imported decorative tiles added another £74m to the total.

Even putty moved into a small deficit of £688,000 compared with a trade surplus of almost £2m in the first nine months of 1987.

On the other hand wallpaper exports from Britain rose sharply last year contributing a trade surplus of £61m in the first nine months.

Trade figures however do not take into account the big growth in overseas earnings by British building material companies with large overseas subsidiaries.

Redland for example achieves less than a third of its sales in the UK. RMC achieves under half its turnover in the UK. BPB and Marley both achieve 40 per cent of sales outside Britain.

Sir Colin Corness, chairman of Redland, says import penetration, currently at about 10 per cent of UK construction output, was only slightly above its 1976 level and was considerably lower than many manufacturing industries.

"Import penetration has increased since 1981, but in the last 15 years it has only risen during years of growth in construction output. When construction output has declined, imports have been forced out of the home market and import penetration has fallen," said Sir Colin.

Docklands development project

NORDIC CONSTRUCTION COMPANY (NCC), the Swedish real estate and construction group, last week signed a £200m contract with the London Docklands Development Corporation (LDDC) to develop part of the former East India Docks, writes Sara Webb, Stockholm correspondent.

NCC has agreed to develop a 5.9 acre site on one of the last remaining sites in the London docklands' enterprise zone. It plans to build offices, retail outlets, penthouse suites, leisure facilities and an underground car park.

Altogether the four buildings will provide a total area of 600,000 sq ft, mainly for offices. The first building is expected to be completed by the end of 1990 and the rest by 1992.

NCC is part of Nordstjernan, a Swedish company listed on the Stockholm stock exchange and controlled by the Johnson family. It was formed last year when Nordstjernan decided to bolster its real estate and construction interests - particularly overseas - by acquiring ABV, Sweden's second largest construction group, for about SKr3bn which it then merged with its own smaller construction unit.

The newly formed NCC has a turnover of around SKr17bn and is expected to show a profit of around SKr700m for 1988, according to a senior executive.

The £200m contract is the largest NCC has won in the UK. Two years ago ABV was involved in a SKr150m development project in the Docklands called the Scandinavian Centre which was completed in 1988.

Mr Ake Danielson, managing director for NCC's real estate division, said last week that "investment in the Docklands area represents an important step in our strategy to expand overseas".

The group has recently invested in development projects in Brussels, Dusseldorf, and Copenhagen and this year expects about one third of its total investment in real estate to be overseas.

Refurbishing the Dorchester Hotel

SIR ROBERT McALPINE MANAGEMENT CONTRACTORS has been appointed for the £50m refurbishment of the Dorchester Hotel on London's Park Lane.

This famous London hotel was originally built by Sir Robert McAlpine & Sons in 1930, and it is expected that this major refurbishment project will ensure that the Dorchester maintains its reputation as one of the finest hotels in the world.

The 15-month project comprises the complete refit of the mechanical, electrical, plumbing and drainage services together with the formation of new plant rooms. All the lifts (except those serving the Terrace Restaurant) will be replaced. The original "Regal" cast iron lift will be completely restored. Seven additional lifts will be installed throughout the building and two escalators will connect the basement kitchens with the ground floor servery.

Some demolition will be carried out in the basement to allow for improvements to the kitchen facilities and the addition of a new nightclub and health centre.

On the ground floor limited demolition and alterations will enable the formation of a shopping arcade, an oriental restaurant and improved guest and visitor facilities.

A business centre will be located on the mezzanine floor and, on the remaining nine upper floors, all bedrooms and suites will be extensively replanned, refurbished and redecorated.

Office development in Peterborough

A £40m management contract has been awarded to the P&O Group company BOVIS CONSTRUCTION to build a major office development in Peterborough, for Royal Life Holdings.

Occupying a 15 acre site on the Lynch Wood Business Park, the 220,000 sq ft development will provide offices, computer facilities, support services and leisure amenities for 1,000 Royal Life staff.

The development combines a three-storey office block and two-storey services block connected by a fully enclosed walkway and surrounded by landscaped grounds which will include a lake, ornamental gardens and football pitch.

Work on the project begins in March with completion scheduled for December 1990.

Hong Kong airport terminal

Hong Kong Air Cargo Terminals has awarded GAMMON CONSTRUCTION, owned jointly by Trafalgar House and Jardine Matheson, a £38m contract to build a seven-storey air cargo Terminal II building, to the south of the Terminal I, at Hong Kong International Airport, Kowloon.

In view of the growth of the Hong Kong economy, a seven-storey 50 metre high system design warehouse – Terminal II – will be needed to meet the forthcoming demands of the island's air cargo community.

The building structure will have a reinforced concrete frame with spiral ramps at both ends giving a total gross floor area of over 93,000 sq metres.

Within the lower and upper levels of the terminal, the prepack reception will be located on the ground and fifth floors and the perishable cargo release and imports on the second and fourth floors. All the floors will be served by a dedicated container storage system as well as the bulk storage system. Over 11,000 sq metres of office accommodation will be provided on the third and sixth floors.

The terminal is scheduled to be completed by the end of September 1991.

Hotel for Heathrow

HIGGS AND HILL MANAGEMENT CONTRACTING has started work on a £19.6m contract for BAA Hotels to construct a four-star hotel close to Terminal 4 at Heathrow Airport The contract also requires the building to be fully serviced and fitted out.

The hotel will comprise two parallel five-storey blocks constructed off a main podium slab. It will have piled foundations and an in situ concrete frame to be constructed using rapid table form methods.

The main feature of the building will be an atrium linking the two bedroom blocks. This will house the main reception area as well as several bars and restaurants, one of which will overlook a feature swimming pool.

DIARY DATES

PARLIAMENTARY

Today

Commons: Transport (Scotland) Bill, remaining stages.

Lords: Football Spectators Bill, committee.

Motions on Industrial Training Levy Orders.

Select committee: Public Accounts: subject, Prosecution of Crime in Scotland; Review of the Procurator Fiscal Service. Witnesses: The Crown Office for Scotland; Mr I. Dean, Crown Agent. (Room 16, 4.30 p.m.)

Tomorrow

Commons: Opposition debate on "The Government's failure to give proper care to the safety of food and water."

Motion on Rate Limitation Order.

Lords: Companies Bill, committee.

Motions on Nature Conservation and Amenity Lands and Laganside Development Orders for Northern Ireland.

Select committees: Education, Science and Arts: subject, supply of teachers for the 1990s. Witnesses: Assistant Masters and Mistresses Association, Professional Association of Teachers and National Association of Teachers in Further and Higher Education. (Room 15, 4.15 p.m.)

Employment: subject, Legionnaires' Disease. Witness: BBC. (Room 16, 4.15 p.m.)

Wednesday

Commons: Official Secrets Bill, remaining stages.

Motion on London Regional Transport (Levy) Order.

Lords: Debate on the White Paper "Working for Patients."

Select committees: Welsh Affairs: subject, the Channel Tunnel and its implications for Wales. Witness: Mr Michael Portillo, Transport Minister. (Room 18, 10.30 a.m.)

Defence: subject, the appointment and objectives of the Head of the Defence Export Services Organisation. Witnesses: MoD officials. (Room 16, 10.50 a.m.)

Energy: subject, electricity privatisation. Witness: Mr Malcolm Rifkind, Scottish Secretary. (Room 6, 11 a.m.)

Home Affairs: subject: higher police training and the Police Staff College. Witness: Police Federation. (Room 15, 4.15 p.m.)

European Legislation: subject, developments in Europe. Witness: Mr Stanley Clinton Davis. (Room 15, 11 a.m.)

Public Accounts: subjects, the government purchasing initiative; Northern Ireland Housing Executive public liability claims; financial assistance to industry; the Efficiency Criterion. Witnesses: Officials from the Northern Ireland Office, Northern Ireland Housing Executive and Industrial Development Board for Northern Ireland. (Room 16, 4.15 p.m.)

Social Services: subject, future of the National Health Service. Witness: Mr David Mellor, Health Minister. (Room 21, 4.15 p.m.)

Transport: subject, roads for the future. Witnesses: British Tourist Authority and Somerset Council. (Room 17, 4.15 p.m.)

Thursday

Commons: Debate on "Developments in the European Community January to June 1988."

Motion on EC documents on air pollution.

Lords: Elected Authorities (Northern Ireland) Bill, committee.

Cardiff Bay Barrage Bill, second reading.

Motions on Agricultural Orders.

Question to Government on draft code of practice on industrial balloting.

Select committee: European Legislation: subject: Common Agricultural Policy price fixing proposals. Witness: Mr John MacGregor, Agriculture Minister. (Room 15, 4.30 p.m.)

Friday

Commons: Private members' bills.

FINANCIAL

TODAY
BOARD MEETINGS-
Finals:
OCE UK
Provident Financial
Temple Bar Inv. Tst.
Vickers
Interims:
Ashtead
Throgmorton Dual Tst.
[illegible]

Citicorp Overseas Fin. Gtd. Fltg. Rate Nts. 1991 £153.6
Erskine House 1.9p
Fleming Technology Inv. Tst. 0.2p
Hasbro 3cts.
Homestake Mining 5cts.
New Zealand Fltg. Rate Nts. 1995 $405.54
Sea Containers 15cts.
Security Pacific Corp. Fltg. Rate Sub. Cap. Nts. 1997 $241.77
[illegible]

Watson & Philip, Stakis Earl Grey Hotel, Earl Grey Place, Dundee, 12.15
Western Selection, Honourable Artillery Co., Armoury House, City Road, E.C., 12.00
BOARD MEETINGS-
Finals:
Abbey Life
Butlers
English & Overseas Props.
ICI
[illegible]

Scholes Grp.
DIVIDEND & INTEREST PAYMENTS-
Abbey Panels 1.8p
Allied Colloids 0.65p
Allied-Lyons 5p
Baker Harris Saunders 3p
Bank of Nova Scotia Fltg. Rate Sub. Cap. Debs. 2085 $408.39
Beales (John) 1.85p
Border Television 0.8p
[illegible]

BOARD MEETINGS-
Finals:
Capital & Counties
Cont. & Ind. Tst.
Crests
Nat West Bank
Yorkshire Chemicals
Interims:
Ewart
Isotron
Peters (Michael)
Really Useful
DIVIDEND & INTEREST PAYMENTS-
[illegible]

THURSDAY FEBRUARY 23
COMPANY MEETINGS-
Bradstock Group, Hyde Park Hotel, 66, Knightsbridge, S.W., 12.00
Burndene Invs., 22, Hanover Street, Edinburgh, 10.30
Horne (Robert) Group, Huntsman House, Mansion Close, Moulton Park, Northampton, 11.00
Macarthy, Apothecaries Hall, Black Friars Lane, E.C., 12.30
Neotronics Technology, Parsonage Road, Takeley, Bishops Stortford, 12.30

COMPANY MEETINGS-
Bett Bros., 9, Cox Street, Dundee, 12.00
Richards, Broadford Works, Maberly Street, Aberdeen, 10.00
Southern Business Group, Queens House, Ullswater Crescent, Coulsdon, 11.00
Yorkshire Television, Queens Hotel, City Square, Leeds, 12.00
BOARD MEETINGS-
Finals:
Lloyds Bank
Interims:

Aluminum Co of America 152cts.
Exchequer 12¼% 1992 6⅛pc.
Ranks Hovis McDougall 8½% Un. Ln. 1990/94 4¼pc.
Do. 8⅞% Un. Ln. 1991/95 4⁷⁄₁₆pc.
Sommerville (Wm.) 1p
Stanley Leisure Org. 1.75p
TSB Fltg. Rd. Pf. (Class B Ptg. Rd. Pf.) 1p
SUNDAY FEBRUARY 26
DIVIDEND & INTEREST PAYMENTS-
Treasury 10% 2001 5pc.

Trade Fairs and Exhibitions: UK

Current
Boat, Caravan, & Leisure Show (021 236 3366) (until February 26)
NEC, Birmingham

Current
International Men's & Boy's Wear Exhibition – IMBEX (01-940 6065) (until February 22)
Olympia

February 21-22
Northern Heating & Ventilating Exhibition (01-680 7525)
G-Mex Centre, Manchester

February 21-24
The Which Computer? Show, together with (on February 22) a conference on "Strategic Perspectives: the next generation" (01-940 6065)
NEC, Birmingham

February 28-March 2
International Powder, Granule & Bulk Solids Exhibition – POWTECH (0883 716244)
G-Mex Centre, Manchester

March 7-April 2
"Daily Mail" Ideal Home Exhibition (01-222 9341)
Earls Court

March 12-14
British Footwear Fair (01-739 2071)
NEC, Birmingham

March 19-21
International Cycle & Leisure Fair – CYCLEX (01-890 2211)
Olympia

March 21-22
British Institute of Management Exhibition and Conference (0536 204222)
Wembley Conference Centre

Overseas Exhibitions

February 20-23
Construction and Engineering Exhibition (01-437 8344)
Kuwait

February 23-26
International Sports Equipment Fair – ISPO SPRING (01-948 5166)
Munich

February 28-March 3
Computer and Communications Exhibition – MEXICO COM EXPO (01-977 3474)
Mexico City

March 12-18
International Spring Fair (0375 392222)
Leipzig

March 17-20
International Footwear Fair-GDS (01-794 0166)
Dusseldorf

March 23-28
International Nuclear Technology and Instrumentation and Equipment Exhibition – NT & IE CHINA (01-229 2616)
Beijing

Business and management conferences

February 20-21
FT Conferences: Cable television and satellite broadcasting (01-925 2323)
Hotel Inter-Continental, London

February 20
Legal Studies & Services: Mergers & Acquisitions – Major tax, accounting and finance issues (01-236 4080)
Marriott Hotel, London

February 20-22
The FT City Seminar (01-925 2323)
Plaisterers Hall, City of London

February 22
The Industrial Society: Upward communication and a strategy for development, designed for financial professional services sector (01-839 4300)
Central London

February 23-24
British Association of Hotel Accountants: Hotel financial management towards 2000 (01-952 0673)
Hilton International Hotel, Nicosia

February 28
IBC: Protecting and insuring against country risk in trade (01-236 4080)
The Tower Hotel, London

March 1-2
IBC/Money Management Council: The effects of the Financial Services Act on the Financial Services Industry and the Consumer (01-236 4080)
London Press Centre, EC4

March 2-3
The Economist Conference Unit: 1992 and beyond - practical approaches to the human resource and management development issues (01-839 7000).
Hyatt Regency Hotel, Brussels

March 6
Financial Times Conferences: The London Motor Conference – Manufacturing, Components and the Aftermarket (01-925 2323)
Hotel Inter-Continental, London

March 14
Institution of Mining and Metallurgy: Metals 2000 – A definitive assessment of trends in the major metals over the next decade (01-580 3802)
Park Lane Hotel, London

March 15
PRO NED/Birmingham Chamber of Industry: Non-executive directors – a way to building a better business (01-637 2281)
Edgbaston Banqueting Centre

March 20-21
Financial Times Conferences: Retailing in the 90's – The role of technology (01-925 2323)
Hotel-Inter-Continental, London

March 22
The Institute of Economic Affairs: Tensions and opportunities in Britain's EC relationships (01-799 3745)
Queen Elizabeth II Conference Centre, London

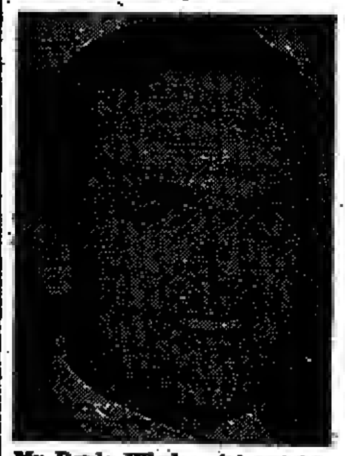
Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

APPOINTMENTS

Smith New Court finance director

■ Mr Gavin Casey is to succeed Mr John McNair as group finance director of SMITH NEW COURT on April 3. Mr McNair is leaving to pursue private business interests. Mr Casey was deputy chief executive, County NatWest.

■ GKN has appointed Dr Walter Seipp, chairman of the Commerzbank management board, as a non-executive director from April 1. Dr Seipp is also on the supervisory boards of Daimler Benz, Linde, Thyssen and Bayer.



Mr Denis Whelan *(above)* has been appointed chief executive of INITIAL AUTOMATIC SERVICES, part of Initial UK, a BET company. He is chief executive of Initial Textile Services.

■ Mrs Patricia Book, formerly in the bond division of Phillips & Drew, has joined LAZARD INVESTORS, investment management subsidiary of Lazard Brothers & Co., as a director.

■ LONDON INTERNATIONAL GROUP has appointed Mr David J. Harbut as group finance director. He replaces Mr Paul Bristow who is leaving the group. Mr Harbut was finance director of Gestetner Holdings.

■ The new deputy director of NATIONAL SAVINGS will be Mr David Butler of the Treasury. Mr Roy Wilson retires in mid-October and Mr Butler will take over as deputy director at that time. He will join National Savings at the beginning of September as principal establishment officer and principal finance officer.

■ Mr Gary Allen, managing director of IMI, has been appointed a non-executive director of BIRMINGHAM EXECUTIVE AIRWAYS.

■ SYLETONE has appointed Mr Mike Clewes as finance director. Mr Keith Marsden hands over responsibility for group financial control, but continues as deputy chairman.

■ Mr Christopher Tracy has been made director, corporate development, at ASW HOLDINGS.

■ Mr John Trott has become stores director at ICELAND FROZEN FOODS. He was northern stores controller.

■ Ms Sally Wilkinson has been appointed managing director of SMALLBONE, a part of Williams Holdings Group. She was formerly sales director of Smallbone.

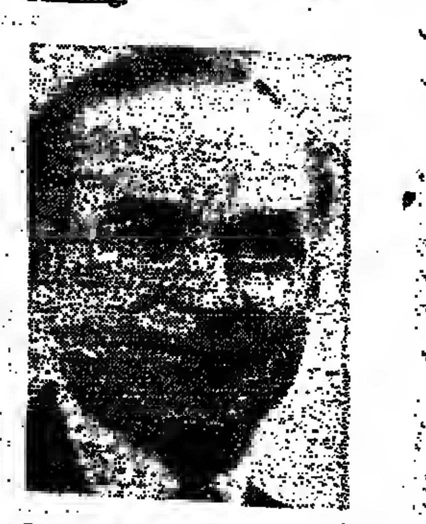
■ Mr David Gibbs and Mr Ian Magowan have jointly acquired the entire share holding of their company, FILMATIC LABORATORIES. Mr Gibbs becomes chairman and managing director, and Mr Magowan becomes assistant managing director. Mr Rex Ebbetts, former shareholder, chairman and managing director, has retired.

■ Mr Barry K. Surbutt has been appointed general manager and a director of HANSA GENERAL INSURANCE COMPANY (U.K.) from April 1. The company is a member of the Trygg Hansa Group, Stockholm.

■ ALPHA TECHNICAL SERVICES has appointed Mr Bob Maynard and Mr Les Sharp as joint managing directors. They founded the company in 1974.

■ FRIGOSCANDIA has appointed Mr John Dunbar as a non-executive director. He is an executive director of Clayhithe.

■ WILLIS FABER has appointed Mr John V.H. Robins, chairman of IRPC, as chairman of Willis Consulting and Willis Wrightson Financial Planning.



Mr Chris Brown *(above)* has been promoted to the new post of sales director of BRITISH ALCAN ROLLED PRODUCTS, with responsibility for the company's sheet and coil products as well as for aluminium foil.

LEGAL COLUMN

Mackay gives the profession a taste for blood

By Raymond Hughes

THE SIGHT of the English legal profession baying for the blood of the Lord Chancellor is, to say the least, unusual.

The law has always been a relatively respectful profession, and not one prone to lashing out at the holder of the most senior judicial office in the land.

Over many years lawyers sat comfortably under the largely benevolent regime of Lord Hailsham, with his gnome-like appearance and wheezy, chuckling good humour – a reassuringly familiar product of the English establishment.

Barristers could be assured that he would protect their interests, while solicitors knew that although he opposed their desire to encroach on the Bar's traditional territory, he could be relied upon to fight their corner in any attack from outside.

Now those days of wine and roses are gone and the profession is faced with an alien creature: an ascetic Scottish Lord Chancellor without professional and emotional ties or loyalties to the English legal profession, who seems determined to import into it the ethos and values of the marketplace – and, it is suspected – a measure of government control.

It is not only the lawyers on the court floor who are up in arms at Lord Mackay's proposals.

Even the normally reticent judiciary has been provoked into expressing misgivings in a manner which, ironically, would hardly have been possible in the Hailsham era, when judges were required to keep their opinions on anything other than the cases before them under their wigs.

Thus we have no less a person than Lord Lane, the Lord Chief Justice – in tabloid terms "Britain's Top Judge" – describing the green paper as "one of the most sinister documents to emanate from Government" and as a threat to the independence of both lawyers and judges.

That independence, Lord Lane declared, was "the last bastion between the ordinary citizen and tyranny."

Assisting in the ceremonial burying of a "time capsule," containing, among other things, a copy of the green paper, under a new magistrates court, Lord Lane expressed the hope that the burial was "both symbolic and prophetic" of what would be the fate of Lord Mackay's proposals.

Then we have seen Lord Donaldson, the Master of the Rolls – "Britain's Top Appeal Judge" – worrying on television about the suggestion that any minister of the Crown, "of whatever eminence and however admirable the present incumbent may be," should have the power to legislate for the legal profession.

Lord Lane: "Most sinister document"

Other highly critical reactions have come from Lord Hailsham – "not particularly well timed, not particularly well thought out, and in some aspects . . . definitely sinister" – and Lord Rawlinson, a former Attorney General – "ill conceived and in parts cynically populist."

Faced with the sight of these legal lords a-leaping in alarm, the Man on the Clapham Omnibus (or the Man in the Threadneedle Street Taxi, for that matter) might take the cynical view that: "If that lot are against him, Mackay must have got it about right."

On the other hand he might feel that if leading members of a very conservative profession feel constrained to use a word like "sinister" about proposals put forward by a Conservative Lord Chancellor, there may, in fact, be something to worry about.

It was, no doubt, more to do with his engagement diary than anything else that Lord Mackay's first detailed response to the reactions to his proposals was made in the faraway forum of a meeting of the American Bar Association in Washington DC.

He was at pains to reassure the English Bar that he did not envisage its demise as a result of his revolutionary reforms. In canny, double-edged terms, he said that the only difference would be that the Bar would survive "by excellence and not because it is buttressed by legal restrictions on those who could compete with its members."

Equally ambiguous was his view that there would always be a substantial demand from the public for "the kind of independent advocacy services which the Bar currently provides."

More explicitly, he said that barristers' current monopoly over rights of audience in the higher courts was regarded by many as an unjustifiable restrictive practice which increased costs to clients and diminished their choice.

In today's competitive climate, where people were increasingly aware of their rights, that monopoly needed re-examining, he said.

Lord Mackay also sought to allay fears that his proposals for regulating and licensing advocates threatened the legal profession's independence.

The profession, he said, would continue to be independent of the state.

There would be a statutory framework for all professions seeking to offer legal services, but the granting, withdrawal, suspension or revocation of an individual advocate's certificate would be entirely a matter for the advocate's supervisory professional body.

Lord Mackay's critics will have two opportunities to challenge him face-to-face next month.

He is to make the keynote speech at a two-day conference on the green paper at a London hotel on March 6 and 7 at which, the organisers, Westminster and City Programmes, say there will be "plenty of opportunity for questions from delegates."

Then on March 15 he will give the opening address at a forum on the future of the legal profession organised by The Times at the National Theatre.

If the "considered response" to the green paper delivered by the Bar last Friday was anything to go by, Lord Mackay's soothing words in Washington would seem to have done little to appease his critics.

The "considered response", was, in fact, not much different from the Bar's angry "initial response" when the green paper was published on January 25. The views remained unchanged, only now they were couched in less emotive terms.

Mr Desmond Fennell, QC, the Bar's chairman, said that the "inherent defect" of the green paper was the application of market forces to the administration of justice. They might help solve the large number of problems but whether they would help the standard of justice and its administration was a different matter.

But had he not been at all reassured by Lord Mackay's Washington speech?

Mr Fennell admitted to being "greatly encouraged" by what Lord Mackay had said. But – "our fears – our worst fears – were confirmed by what the Lord Chief Justice had to say.

"If the Lord Chief Justice of England describes a document as being the most sinister to appear from Government, I find that quite alarming."

LEGAL APPOINTMENTS

LAW SOCIETY ADMISSIONS FEBRUARY 15TH 1989

ABRAHAM, Julian Rodney B.A. Mr, London
ATTARD, Antonia LL.B Miss, London
ATTREE, Rebecca Margaret B.A. Miss, London
BAILEY, Sharon Christine LL.B Ms, London
BETTRIDGE, Mark Alan B.A. Mr, Hertford, Hertfordshire
BHOGAL, Iqbal LL.B Miss, Gillingham, Dorset
BIR, Jaskinder LL.B Miss, Hayes, Middlesex
BOWLER, Peter St Aubin LLB Mr, Stockport
BRAITHWAITE, Neil Kenneth B.A. Mr, London
BROOKS, David Michael B.A. Mr, London
BROMLEY-JONES, Christopher Leslie LL.B Mr, London
BUTT, Nigel Peter LL.B Mr, Torquay, Devon

CASOTTI, Marco LL.B Mr, Leighton Buzzard, Bedfordshire
CATO, John LL.B Mr, Wendover, Bucks
CHEUNG, Dorothy Tai-Ngar B.A Miss, Stockport, Cheshire
CHIMES, Joanna Margaret B.A. Mrs, Eye, Suffolk
CLARK, David Edward Mr, Stoke On Trent
CLORE, Jeremy Ian B.A. Mr, London
CODD, Martin Desmond LL.B Mr, Sidcup, Kent
COPPOCK, Stephen James B.A Mr, Norwich, Cheshire
COPWELL, Jonathan Paul LL.B Mr, Harrogate, North Yorkshire
CROWLEY, Celeste Marie LL.B Miss, Liverpool, Merseyside
CRUTCHLEY, John Hamilton LL.B Mr, Sutton, Surrey
CRYER-WILLIAMS, Tobias Morgan LL.B Mr, Leominster, Herefordshire

DECON, Anthony Robert LL.B Mr, Cornwall
DENTON, Jonathan Irvin B.A Mr, Gillingham, Kent
DORMAN, Stephen B.A. Mr, London
DRUKARZ, Daniel LL.B Mr, London
ECCLESTON, Jennifer Miss, Stoke-On-Trent
EVANS, Colin David B.A. Honours Mr, Sittingbourne, Kent

FIELDING, Simon John LL.B Mr, Warrington, Cheshire
FITZPATRICK, Ian Peter LL.B Mr, Wirral, Merseyside
FLEMMING, Andrew Thomas B.A Mr, Bristol
FLETT, Simon Kenneth Macdonald LL.B Mr, London
FORDHAM, Douglas Alan B.A Mr, Woking, Surrey
FRIEND, Edward Alexander B.A Mr, London
FRUEN, Roger David DML Mr, Newport, Isle Of Wight
FURSEY, Michael John LL.B Mr, Northampton, Northamptonshire

GANI, Ebrahim Abdul Mr, London
GEORGE, Jane B.A. Mrs, London
COATLEY, Peter Seamus Patrick B.A Mr, Cheltenham, Gloucestershire
GRIFFIN, Terence Anthony Stephen B.A Mr, Chorley, Lancashire

HALL, Patricia Ellen Miss, Enfield, Middlesex
HAMILTON, Maria Mercedes LL.B Ms, London
HANSON, Ruth Hanner LL.B Miss, Shipley, West Yorkshire
HARRIS, Peter James LL.B Mr, London
HAZELL, Sean Patrick LL.B Mr, Woodstock, Oxfordshire
HEWITT, David William LL.B Mr, Blackpool, Merseyside
HILTON, Mark LL.B Mr, Wigan, Lancashire
HO, Hin-Kwai
(Solicitor of The Supreme Court of Hong Kong) Mr, Auckland 10, New Zealand
HOBDEN, Nicholas David LL.B Mr, Basingstoke, Hampshire
HOBDEN, Trevor Austin Trent LL.B Mr, Norfolk
HOLEHOUSE, Marie Louise LL.B Miss, Longton, Lancashire
HOLT, Andrew Patrick LL.B Mr, Manchester
HUMPHREYS, Robert Mark B.A Mr, Mold, Clwyd
HUTCHINSON, Marcia Ann B.A Miss, London
HYDE, Jill Miss, Manchester

JARVIS, Annmarie Miss, Kenilworth

KAMALANATHAN, Maheshwaray
(Solicitor of The Supreme Court of Sri Lanka) Mrs, Edgware, Middlesex
KEMP, Lesley Ann B.A Miss, London
KENDRICK, Clare Louise Miss, Stockport, Cheshire
KHUSHAL, Kirit B.A. Mr, Coventry
KINGSLAND, Joanne LL.B Miss, Cramlington, Northumberland

LOMAX, John David Mr, Bolton, Lancashire
LUND, Davina Sharon LL.B Mrs, Northampton

MACMAHON, Maire Briod LL.B Mr Boston, Lincolnshire
MARSHALL, Timothy Thomas LL.B Mr, Northwood, Middlesex
MATTHEWS, Stephen John LL.B Mr, Warrington, Cheshire
MCGILL, Clare Josephine LL.B Miss, London
MCKAY, Darren James B.A. Mr Rochdale, Lancashire
MEHLIG, Nicholas Martin LL.B Mr, London
MEHTA, Sunil Ravindrarai B.A. Mr, Walthamstow
MITCHELL, Deborah Jayne LL.B Mrs, Chesterfield, Derbyshire
MOONEY, John LL.B Mr, Merseyside
MORLEY, Timothy James LL.B Mr, London

NAPIER, Alice Elizabeth LL.B Miss, London
NICHOLAS, Philip Lewis Gruffydd LL.B Mr, Richmond, Surrey
NICOL, Annabel Louise B.A. Miss, East Grinstead, West Sussex

OWEN, Christopher John Lambert M.A. Mr, London
PATRICK, Jill Louise Miss, Guisborough, Cleveland
PEARL, David B.A. LL.M Mr, London
PHEBY, Julian David LL.B Mr, Manchester
PITCHER, Robert Wayne B.A. Mr, London

REEVE, Elizabeth Sophie Jane LL.B Miss, Ipswich, Suffolk
REEVES, Mark David LL.B Mr, Hartlepool, Cleveland
REEVES, Michelle LL.B Miss, Iver, Bucks
RICHARDSON, Kevin John B.A. Mr, Milton Keynes
ROCKS, Ashley B.A. Mr Spennymoor, Co Durham
ROOTS, Nigel Patrick Peter LL.B Mr, 198 Buttermarket, Thame, Oxfordshire
ROWAN, Vincent Bernard LL.B Mr, Central Hong Kong

SCOBBIE, Ian LL.B Mr, Wirral, Merseyside
SHOKOYA-ELESHIN, Ayodeji Adepero Aderagba LL.B Miss, London
SMITH, Jacqueline Carol LL.B Miss, London
SOMERS, Anina LL.B Ms, Birmingham
SPAFFORD, Richard Anthony Beaumont Mr, London
STEELE, Kevin Joseph LL.B Mr, Mayfield, East Sussex
STERN, Lynne Christine Miss, Wigan

TENQUIST, Jae Noelle LL.B Mrs, Oxford
TILLEY, George LL.B Mr, Houghton-Le-Spring, Tyne & Wear
TOMINNA, Susa Rozel LL.B Miss, Cuckfield, Sussex
TRIPLEY, Deborah Jane B.A Miss, London
TURNER, Nicholas Charles B.A Mr, Bath, Avon
VOS, Claire Louise LL.B Mrs, Letty Green, Hertford
WARD, Beverley Teresa LL.B Miss, Taunton, Somerset
WATLING, Gavin Michael B.Sc Mr, Walton-On-The-Naze, Essex
WELLS, Andrew Charles LL.B Mr, Eastbourne, East Sussex
WELLS, Gillian Mary LL.B Miss, Caerphilly, Mid Glamorgan
WENTWORTH, Anthony James LL.B Mr, Guisborough, Cleveland
WHITE, Paul Roger Mr, London
WHITNEY, David John LL.B Mr, London
WIDERSPIN, Janis Yvonne LL.B Miss, Hoddesdon, Hertfordshire
WILSON, Colleen Andrea LL.B Miss, London
WISE, Elizabeth LL.B Mrs, Camberley, Surrey
WOODWARD, Raymond John B.A Mr, Holywell, Clwyd

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT.

AUTHORISED UNIT TRUSTS

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♠ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.
Other explanatory notes contained in last column of the FT Unit Trust Information pages.

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FT UNIT TRUST INFORMATION SERVICE

• For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Windsor Trust Mngrs Ltd (1200)F						
83 Kingsway, London, WC2B 6SD						01-405 8331
Combnd & Equity	5	63.07	65.96	69.75	3.84	41599
European	5	56.53	57.13	60.77	0.49	[illegible]
Far Eastern	5	55.05	55.05	58.57	1.18	[illegible]
Growth	5	87.43	90.87	96.67	1.67	[illegible]
Income	5	80.76	82.65	87.95	3.80	[illegible]
Property Share	5	54.50	55.50	59.08	1.25	[illegible]
Smaller Co's	5	58.43	61.45	65.37	1.63	[illegible]
Formerly RBC Trust Managers Ltd						
Windsor Sel Gth Acc ♦	5	62.61	62.42	66.97	1.02	[illegible]
Windsor Select Inc ♦	5	67.29	67.29	71.97	3.46	[illegible]
Windsor Sel Inc Acc ♦	5	72.21	72.21	77.24	3.46	[illegible]
Windsor Nth Amer ♦	5	51.49	51.49	55.07	1.87	[illegible]
Windsor Intl ♦	5	41.00	41.00	43.85	1.49	[illegible]
Wright Seligman Fund Mngrs Ltd (1000)H						
11 Blomfield St, London EC2M 7AY						01-588 8592
Growth	5	92.68	92.68	96.68	3.90	[illegible]
Weekly dealing day Tuesday						
The Yorkshire Unit Tst Mngrs Ltd (1100)F						
Woodsome Pk, Fenay Bdge, Huddersfield						0484 602250
Yorkshire General	5¼	60.63	62.84	66.85	3.13	[illegible]
YUTM UK Eqty Inc Tst	5¼	59.08	61.02	64.91	4.37	[illegible]
YUTM Intl Gwth Tst	5¼	45.90	45.40	48.93	1.12	[illegible]

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd					
Int'l Exmpt Feb 15	428.8	445.3		—	40105
Cent. Bd. of Fin. of Church of England					
2 Fore Street, London EC2Y 5AQ					01-588 1815
Inv Fund Jan 31		492.90		4.71	40251
Fxd Int Sec Jan 31		143.75		9.95	40252
Deposit Jan 31		100.00		12.45	40253
Charities Official Invest. Fund					
2 Fore Street, London EC2Y 5AQ					01-588 1815
Income Jan 31		469.11		4.97	40258
Accum Jan 31		1500.47		—	40259
Edinburgh Fund Mngrs PLC					
Exempt Funds					
American Feb 14	119.8	123.1		1.73	40368

INSURANCES

	Bid Price	Offer Price	Yield Gross	City-line
Allied Dunbar Assurance Plc				
Allied Dunbar Ctr, Swindon SN1 1EL				0793 514514
Fixed Int. Dep. Acc.	254.8	268.3	—	41723
Equity Acc.	903.7	946.0	—	41724
Property Acc.	479.8	504.7	—	41725
Far East Acc.	193.7	203.9	—	41726
European Acc.	19.8	20.9	—	41727
Managed Acc.	636.7	670.3	—	41728
Managed Cap.	362.9	382.1	—	41729
O'seas Earnings Acc.	[illegible]	[illegible]	—	41730
Gilt Edged Acc.	317.3	334.1	—	41731
American Equity Acc.	392.5	413.2	—	41732
American Man. Acc.	183.2	192.9	—	41733
American Prop Acc.	134.0	141.1	—	41734
Pen. F.I. Dep. Cap.	280.2	295.0	—	41735
Pen. F.I. Dep. Acc.	474.7	499.7	—	41736
Pen. Prop. Cap.	561.2	590.8	—	41737
Pen. Prop. Acc.	1049.9	1105.2	—	41738
Pen. Man. Cap.	779.0	820.0	—	41739
Pen. Man. Acc.	1456.6	1533.3	—	41740
Pen. Gilt Edg. Cap.	318.3	335.0	—	41741
Pen. Gilt Edg. Acc.	483.3	508.8	—	41742
Pen. Eq. Cap.	1273.0	1340.1	—	41743
Pen. Eq. Acc.	1804.3	1899.3	—	41744
Pen. Am. Eq Cap.	124.5	131.1	—	41745
Pen. Acc. Eq Acc.	148.6	156.5	—	41746
Pen. Far East Cap.	229.1	241.2	—	41747
Pen. Far East Acc.	273.7	288.2	—	41748
Pen. Euro Cap.	22.8	24.0	—	41749
Pen. Euro. Acc.	24.5	25.8	—	41750
Pen. B.S. Acc.	517.1	543.0	—	41751
Pen. B.S. Cap.	313.8	329.5	—	41752
Pen. D.A.F. Acc.	363.1	363.1	—	41753
Pen. D.A.F. Cap.	247.3	247.5	—	41754
Pen. Mortgage Cap.	140.1	147.5	—	41755
Pen. Mortgage Acc.	167.5	176.2	—	41756
Series Funds				
Pen Equ Cap.	26.6	28.1	—	46176
Pen Equ Acc.	27.4	28.9	—	46177
Pen Am Eq Cap.	27.4	28.9	—	46178
Pen Am Eq Acc.	28.2	29.7	—	46179
Pen Far East Cap.	28.5	30.0	—	46180
Pen Far East Acc.	29.3	30.9	—	46181
Pen Euro Cap.	30.2	31.8	—	46182
Pen Euro Acc.	31.0	32.7	—	46183
James Capel Funds				
Pen Equ Cap.	27.9	29.4	—	46184
Pen Equ Acc.	28.6	30.2	—	46185
Pen Am Eq Cap.	27.6	29.1	—	46186
Pen Am Eq Acc.	28.5	30.0	—	46187
Pen Far East Cap.	28.2	29.7	—	46188

City of Edinburgh Life Assurance

City of Westminster Assurance

Clerical Medical/Fidelity International

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

• For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

	Bid Price	Offer Price	Yield Gross	City-line
Pioneer Mutual Insurance Co Ltd				
16 Crosby Rd N. Waterloo Liverpool				051-928 6655
Managed Fund	283.3	298.3	-	43272
Man Pens Inc & Cap Fds	368.0	387.4	-	43273
Money Fund	117.1	123.3	-	43274
Pens Mngd Fd (Init)	99.4	104.7	-	43275
Pens Mngd Fd (Acc)	119.2	124.5	-	43276
Pens FT30 Fd (Init)	140.9	148.4	-	43277
Pens FT30 Fd (Acc)	167.5	176.4	-	43278
Pens O'seas MgFd(Init)	70.0	73.7	-	43279
Pens O'seas MgFd(Acc)	83.3	87.7	-	43280
Pens Fxd Int Fd (Init)	106.0	111.6	-	43281
Pens Fxd Int Fd (Acc)	126.1	132.8	-	43282
Pens Deposit Fd (Init)	103.3	108.8	-	43283
Pens Deposit Fd (Acc)	122.8	129.3	-	43284
Premium Life Assurance Co Ltd				
37-39, Perrymount Road, Haywards Heath				0444 458721
American	106.0	112.0	-	43285
Building Soc. Fd	168.0	177.0	-	43286
Balanced	269.0	284.0	-	43287
Deposit	166.0	175.0	-	43288
European	148.5	156.0	-	43289
GT Managed	171.0	180.0	-	43290
Gartmore Mngd.	111.0	117.0	-	43291
German	103.0	109.0	-	43292
Gilt	175.0	185.0	-	43293
Global	48.0	51.0	-	-
High Inc.	115.0	122.0	-	43294
International Equity	175.0	185.0	-	43295
Japan	237.0	250.0	-	43296
Managed	61.0	65.0	-	43297
Property	276.0	291.0	-	43298
O W Imperial Gold.	129.0	136.0	-	43299
UK Equity	363.0	383.0	-	43300
Pension Funds				
American	130.0	137.0	-	43301
Building Soc. Fd.	165.0	174.0	-	43302
Balanced	208.0	219.0	-	43303
Deposit	159.0	168.0	-	43304
European	148.0	156.0	-	43305
German	95.0	100.0	-	43308
Gilt	147.0	155.0	-	43309
International Equity	129.0	136.0	-	43310
Japan	136.0	144.0	-	43311

	Bid Price	Offer Price	Yield Gross	City-line
Prudential Holborn Pensions Ltd				
30 Old Burlington St. London W1X 1LB				01-439 3134
Managed	524.3	551.9	-	43524
Equity	761.2	801.3	-	43525
Global Equity	206.4	219.4	-	43526
Fixed Interest	403.4	424.7	-	43527
Property	373.4	393.1	-	43528
Cash	130.5	138.5	-	43529
Index Linked Gilts	192.0	202.2	-	43530
Guaranteed	11.87		-	43531
International Money	192.1	202.3	-	43532
North American	57.0	60.9	-	43533
Japanese	138.5	145.8	-	43534
European	78.0	82.2	-	43535
Special Situations	114.9	121.0	-	43536
Communications	90.4	95.2	-	43537
Smaller Companies	105.5	111.1	-	43538
International Small Cos.	115.0	121.1	-	46559
Prudential Pensions Limited				
Holborn Bars, London EC1N 2NH				01-405 9222
Discretionary Feb 16.	£145.23	150.17	-	43539
Equity Feb 16	£159.19	165.04	-	43540
International Feb 16	£23.42	24.13	-	43541
Intl Bond Feb 16	111.04	11.10	-	43542
Fixed Inc Feb 16	£71.82	72.77	-	43543
Index Linked Feb 16	£59.12	59.86	-	43544
Property Feb 16	£102.89	109.10	-	43545
Cash Feb 16	£20.0762	20.0762	-	43546
Pru-Linked Retirement Plan				
Managed Feb 15	358.6	373.6	-	43547
Cash Feb 15	189.1	197.0	-	43548
Prudential Pensions Investment Account				
Pens Mngd Feb 17.	146.5	154.1	-	43549
Pens UK Eq Feb 17.	272.7	287.1	-	43550
Pens Intl Feb 17	169.1	178.0	-	43551
Pens Fixed Feb 17	166.5	175.3	-	43552
Pens Index Lk Feb 17	151.5	159.5	-	43553
Pens Cash Feb 17	123.5	130.1	-	43554
Regency Life Assurance Co Ltd				
Regency Hse, Lanark Sq, London E14 9XS				01-538 8900

Scottish Amicable

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance Society

Scottish Mutual Investments

Scottish Provident Institution

Scottish Widows' Group

Shield Assurance Ltd

Skandia Life Assurance Co Ltd (z)

Save & Prosper Group (z)

Royal Life Insurance Ltd

Royal Liver Assurance

Royal Heritage Life Assurance Ltd

Reliance Mutual

Prudential Assurance Co

Prudential Holborn Life Ltd

Provident Life Assoc Ltd

Provident Mutual Life Ass. Assn.

Providence Capital Life Assc. Co Ltd

Property Equity & Life Ass. Co

Property Growth Assurance Co Ltd

Prolific Life & Pensions Ltd

Skandia Life Assurance Co Ltd—Contd.

Standard Life Assurance Company

Sun Alliance Insurance Group

Sun Life of Canada (UK) Ltd

Sun Life Unit Assurance Ltd

Swiss Life Pensions Ltd

TSB Life Ltd

Target Life Assurance Co Ltd

Teachers' Assurance Company Ltd

Tunbridge Wells Equitable

UK Life Assurance Co Ltd

Wesleyan & General Assurance Soc

Windsor Life Assur Co Ltd

Zurich Life Assurance Co Ltd

MANAGEMENT SERVICES

David M. Aaron (Personal Fin. Plan.) Ltd

The Analysis Group PLC

Blackstone Franks Plc

Bryan Wells & Partners Ltd

Cameron Law & Company Ltd

James Campbell & Son Financial Services

Chase de Vere PLC

Clifton Financial Mgmt Ltd

Drummond Moores Plc

First Financial Services PLC

The Fitzgrade Group

Gartmore Fund Managers Ltd

Hinton Hill (L & P) Ltd

Investment Portfolio Services Ltd

Johnson Fry Financial Services Ltd

Knight Williams & Company Ltd

Lamont & Partners Plc

M & E Financial Management Plc

Marsh Financial Management Ltd

Noble Lowndes & Partners Ltd

O'Halloran & Co/Countrywide

PBS Fund Management Ltd

The Portfolio Group

Roxborough Financial Management Ltd

Rutland Insurance Broking & Inv Grp Ltd

Sharp (Albert E.) & Co

Siltala Fund Managers Limited

Tattersall Investment Mngt. Ltd

Towry Law & Co.

University Medical General Ltd.

J. D. Ward Financial Services Ltd

Yorkshire & Lancashire Investment Mgt.

OFFSHORE AND OVERSEAS

GUERNSEY AUTHORISED

Framlington Overseas Fund Mngt Ltd

John Govett Mngmt International Ltd

Grofund Invest Managers (Guernsey) Ltd

Guinness Flight Fd Mngrs (Guernsey) Ltd

Hambros Fd Mgrs (CI) Ltd

Kleinwort Benson (Guernsey) Fd Mngrs Ltd

Rothschild Asset Management

Royal Bank of Canada Funds

JERSEY AUTHORISED

Capital House Fund Mgrs (CI) Ltd

Citibank (CI) Ltd "Citifunds"

EBC Trust Company (Jersey) Ltd

Foreign & Colonial Mngt (Jersey) Ltd

John Govett (Channel Islands) Ltd

Lloyds Bank (CI) U/T Mgrs.

MIM Britannia International Limited

Royal Trust Jsy Fd Mngt Ltd

Save & Prosper International

TSB Trust Funds (CI)

Tyndall International (Jersey) Ltd

IoM AUTHORISED

Allied Dunbar International Fund Mgrs.

Asset Global Funds Ltd

Barclays Intl Funds

Equity & Law International Fund Mgs Ltd

Gartmore Fund Managers (IoM)

Refuge Overseas

Tyndall International (Isle of Man) Ltd

LUXEMBOURG AUTH'D

Eagle Star Intl-Global Assets Fund

BERMUDA AUTHORISED

GT Management Plc

OFFSHORE INSURANCES

Albany International Assurance Ltd

CMI Insurance Co Ltd

Eagle Star International

Equity & Law Intl Life Assce Co Ltd

Eurolife Assurance Group

Finance International Ltd

Hansard International Ltd.

Isle of Man Assurance Ltd

MIM Schroder Life Assurance Int Ltd

Premium Life International Ltd

Providence Capital International Ltd

Royal Life Intl. Ltd

Royal Skandia Life Assurance Ltd

Sun Alliance International Life Ltd

Unilife Group

OTHER OFFSHORE FUNDS

Abbey Global Investment Fund

Adams & Neville Fund Mngt (Guernsey) Ltd

Adig Investment

Aetna Federated Intl Mngrs (Lux) SA

FT UNIT TRUST INFORMATION SERVICE

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BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
855	Treas 9½pc Cnv 1989	[illegible]	12.24	12.9	18 Oct 10 Apr	1348
500	Treas 3pc 1989	[illegible]	9.08	10.10	15 Nov 15 May	1327
1,400	Treas 10½pc 1989	[illegible]	12.49	7.11	14 Dec 14 Jun	1287
2,400	Exch 10pc 1989	[illegible]	12.40	28.12	1 Feb 1 Aug	1250
2,000	Exch 11pc 1989	[illegible]	12.38	23.8	29 Mar 29 Sep	1256
601	Treas 5pc 1986-89	96¾	10.67	8.9	15 Apr 15 Oct	1329
174	Exch 10¼pc Cv '89	99½	10.98	10.10	15 May 15 Nov	1255
1,000	Treas 13pc 1990‡‡	[illegible]	11.79	9.12	15 Jul 15 Jan	1300
1,400	Exch 11pc 1990‡‡	[illegible]	11.34	6.1	12 Aug 12 Feb	1257
1,250	Exch. 12½pc 1990	[illegible]	11.43	13.2	22 Sep 22 Mar	1262
550	Treas. 3pc 1990	[illegible]	9.48	3.10	8 Nov 8 May	1325
600	Treas 8¼pc 1987-90‡‡	[illegible]	11.06	8.11	15 Dec 15 Jun	1340
955	Treas. 8pc Cv 1990 ‡‡	[illegible]	8.96	12.12	16 Jul 16 Jan	4680
1,857	Treas. 10pc Cv 1990	[illegible]	11.09	19.9	25 Apr 25 Oct	1285
500	Exch 2½pc 1990	[illegible]	8.98	17.10	22 May 22 Nov	1270
2,200	Treas 11¾pc 1991	101	10.95	5.12	10 Jul 10 Jan	1292
400	Funding 5¾pc '87-91‡‡	91¼	10.20	1.9	5 Oct 5 Apr	1275
400	Treas. 3pc 1991	[illegible]	8.84	7.10	15 Nov 15 May	1326
646	Treas 10pc Cv '91 ‡‡	[illegible]	9.95	6.12	12 Jan 12 Jul	1286
1,550	Exch. 11pc 1991	100	10.71	19.9	25 Apr 25 Oct	1258
1,350	Treas. 8pc 1991	[illegible]	10.68	3.11	10 Jun 10 Dec	1335
900	Treas 12¾pc 1992‡‡	105	10.41	16.12	22 Jul 22 Jan	1297
1,600	Treas 10pc 1992	[illegible]	10.47	16.1	21 Aug 21 Feb	1283
1,400	Treas. 8pc 1992 ‡‡	[illegible]	10.46	6.9	13 Oct 13 Apr	1337
1,288	Treas 10½pc Cv 1992‡‡	100	10.43	3.10	7 Nov 7 May	1289
500	Treas. 3pc 1992	[illegible]	8.30	4.11	1 Dec 1 Jun	1328
1,350	Exch. 12¼pc '92	[illegible]	10.46	19.1	25 Feb 25 Aug	1265
1,757	Exch 13½pc 1992	[illegible]	10.40	13.2	22 Mar 22 Sep	1266
950	Treas 8¼pc 1993	93	10.30	17.1	15 Aug 15 Feb	–
1,850	Treas 10pc 1993‡‡	[illegible]	10.18	8.9	15 Oct 15 Apr	1279
1,100	Treas 12½pc 1993‡‡	107	10.19	8.12	14 Jan 14 Jul	1296
600	Funding 6pc 1993‡‡	[illegible]	9.40	6.2	15 Mar 15 Sep	1276
1,250	Treas 13¾pc 1993‡‡	113	10.21	17.10	23 May 23 Nov	1304
1,050	Treas. 8½pc 1994	93½	10.19	28.12	3 Aug 3 Feb	–

Five to Fifteen Years

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
600	Treas 14½pc 1994‡‡	[illegible]	10.08	23.1	1 Sep 1 Mar	1307
1,300	Exch 13½pc 1994	112	10.24	20.9	27 Oct 27 Apr	1267
1,400	Treas 10pc Ln. 1994‡‡	99	10.03	2.11	9 Dec 9 Jun	1284
1,550	Exch. 12¼pc 1994	[illegible]	10.23	16.1	22 Feb 22 Aug	1263
1,600	Treas 9pc 1994‡‡	[illegible]	9.98	11.10	17 May 17 Nov	1345

Over Fifteen Years

BRITISH FUNDS—Contd

Undated

Index-Linked

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS — Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INDUSTRIALS (Miscel.) — Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

صحكة امنا الأصل

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

LEISURE—Contd

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

THIRD MARKET

6.00	Propeller 1p	48	–	–	–	3729
2.56	Rentaminster 5p	63	F2.0	4.2 30.1	–	5228
8.63	Royal Sovereign 10p	195	14.6	3.1 13.10	May Nov	1505
1.43	Scott Pickford 10p	28½		3.1 20.2	–	5062
7.99	Season Hldgs	115	Z1.0	1.2 19.9	October	3968
1.25	Sonic Tape 2½p	10	n–	–	–	5152
3.87	Stalis Hldgs. 5p	14	–	–	–	4625
3.21	Swanyard Studios 1p	2¼	–	–	–	4666
29.2	Takare	335	b1.0	0.4	–	4647
3.81	Tomorrows Leisure 20p	34	–	–	–	4248
10.8	Tullow Oil 10p	16½	–	–	–	4886
4.03	UPL Group 10p	100	L2.41	3.2 28.11	June	4362
7.49	Unit Group	145	F7.5	6.9 28.11	Jan July	4357
11.3	Whitegate Leisure 20p	16	–	–	–	[illegible]
0.94	Do. Wrrnts	14	–	–	–	[illegible]
16.9	Wilton Group 1p	5	–	–	–	[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially listed.
- ¤ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♠ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date.
- ▌ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. & Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p γ	80	......
Craig & Rose £1 γ	710	......
Finlay Pkg. 5p γ	93	+4
Holt (Jos) 25p γ	1235	+5

IRISH

Cap. 8½% Ln. 1991	£99⅞	......
9pc Cap Ln. 1996	£100	......
Fin. 13% 97/02	£121	......
Arnotts	420	......
Carroll (P.J.) γ	156	-2
Hall (R. & H.)	175	......
Heiton Hldgs γ	70xd	......
Irish Ropes	180	......

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	40
Amstrad	18
BAT	40
BOC Grp	36
BSR	7½
BTR	28
Barclays	34
Beecham	40
Blue Circle	39
Boots	20
Bowaters	38
Brit Aerospace	42
Brit. Telecom	21
Burton Ord	18
Cadburys	31
Charter Cons	45
Comm Union	28
Courtaulds	26
FKI Babcock	13
FNFC	21
Gen Accident	71
GEC	13
Glaxo	90
Grand Met	38
GUS 'A'	90
Guardian	16
GKN	28
Hanson	12
Hawker Sidd	48
ICI	85
Jaguar	22
Ladbroke	38
Legal & Gen	26
Lex Service	34
Lloyds Bank	29
Lucas Inds	48
Marks & Spencer	15
Midland Bk	35
Morgan Grenfell	28
NEI	12
Nat West Bk	45
P & O Dfd	48
Plessey	13
Polly Peck	28
Racal Elect	25
RHM	32
Rank Org Ord	63
Reed Intnl	50
STC	24
Sears	13
TI	32
TSB	9
Tesco	12
Thorn EMI	65
Trust Houses	24
T&N	16
Unilever	42
Vickers	13
Wellcome	42

Property	
Brit Land	30
Land Securities	52
MEPC	50
Peachey	54

Oils	
Brit Petroleum	21
Do. (P.Paid)	12
Burmah Oil	48
Calor	35
Charterhall	2½
Premier	9
Shell	85
Ultramar	21

Mines	
Cons Gold	100
Lonrho	38
RTZ	40

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CURRENCIES, MONEY AND CAPITAL MARKETS

CURRENCIES AND MONEY REVIEW

High risks in the Australian dollar

PERHAPS IT is a coincidence, but Australia's economy bears striking similarities to the old country back in the UK. The main problem for the Australian Government is that it lacks the credibility of the Thatcher administration as far as world financial markets are concerned.

Mr Mark Brett, at Barclays de Zoete Wedd, believes Australia has done a remarkably good job in turning a budget deficit into a surplus, but that if Mr Nigel Lawson, the UK Chancellor, asks for time to improve the situation on inflation and the trade deficit, he has a much better chance of succeeding than Mr Paul Keating, his Australian opposite number.

The Australian dollar is certainly one of the world's more volatile currencies, and appears set to remain so. In early May 1986 it stood at around 75 US cents, and by the end of July had crashed to a record low of 59.55 cents. It began to look very cheap, when compared with currencies such as the dollar, yen and D-Mark, while Government bonds offered high yields, as the Australian Government raised interest rates to squeeze inflation and turn round the deficits on trade and the budget.

At the end of 1987 the current account deficit was 6 per cent of Gross National Product, and the highest within the OECD. By the end of last year this had fallen to 3 per cent of GNP, and the budget deficit had been turned into a surplus.

To produce this turn around in the economy, Australian workers were forced to accept a cut in real wages, but the main round of wage negotiations this year has not yet startad. When it begins in April it will be against a background of strong consumer spending and rising house prices. Many Sydney house prices bave climbed by 80 per cent in a year.

If this sounds like a case of deja vu, there was another striking similarity with the UK economy when the Australian trade figures for January were announced on Thursday. These showed an alarming deficit of A$1.54bn, compared with a forecast shortfall of around $900m. The Australian dollar fell from around 87.50 US cents to under 83 cents on the trade news. And this week could take the currency down to 81.00 cents, or even 80.00 cents, and 70.00 cents is now seen as a longer term possibility.

BZW says:"Never buy a currency the natives are selling", and this means the Australian dollar, which it regards as a high risk area. The Reserve Bank of Australia intervened to sell the local dollar, after it began to rally on a rise in bank prime rates to 18 per cent from 17½ per cent on Friday. The increase in prime rates resulted from higher wholesale money market rates after the bad trade figures.

Following the release of the trade figures Mr Keating, the Australian Treasurer, said that" when demand conditions moderate, I expect and indeed hope that the dollar will fall, and certainly the day that starts we will not be standing in the way of stopping it". Mr Brett at BZW said one of the most worrying aspects of the present situation is the potential profits to be taken by overseas investors in Australia,and this appears to be particularly true of Europe. From the beginning of 1988 the Australian dollar has appreciated by over 30 per cent against the D-Mark. Given the interest rate differential between Sydney and Frankfurt, BZW estimates that a holder of D-Marks invested in Australian money markets last year made a return of 50 per cent. It would hardly be surprising if these investors began to look for a favourable opportunity to take their profits.

Colin Millham

£ IN NEW YORK

Feb.17	Close	Previous Close
£ Spot	1.7750-1.7760	1.7705-1.7715
1 month	0.47-0.44pm	0.46-0.44pm
3 months	1.35-1.30pm	1.34-1.32pm
12 months	3.75-3.65pm	3.74-3.64pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Feb.17	Previous
8.30 am	98.0	97.5
9.00 am	97.9	97.6
10.00 am	97.9	97.7
11.00 am	97.9	97.8
Noon	97.9	97.9
1.00 pm	98.0	97.8
2.00 pm	98.0	97.9
3.00 pm	97.8	97.9
4.00 pm	98.0	98.0

CURRENCY RATES

Feb.17	Bank rate %	Special* Drawing Rights	European Currency Unit
Sterling	-	0.747247	0.639083
U.S Dollar	6.50	1.32173	1.13629
Canadian $	11.54	1.56731	1.35264
Austrian Sch	4	17.1640	14.6684
Belgian Franc	7.75	51.1642	43.7131
Danish Krone	7½	9.48275	8.11140
Deutsche Mark	4	2.43991	2.08509
Neth. Guilder	5.00	2.75581	2.36360
French Franc	9½	8.31104	7.10067
Italian Lira	12½	1788.10	1526.32
Japanese Yen	2½	167.067	142.888
Norway Krone	8	8.85295	7.57905
Spanish Peseta	-	151.777	129.821
Swedish Krona	8½	8.32029	7.14272
Swiss Franc	4	2.07049	1.77091
Greek Drach.	20½	203.804	174.420
Irish Punt	-	N/A	0.782084

*All SDR rates are for Feb.16

CURRENCY MOVEMENTS

Feb.17	Bank of England Index	Morgan** Guaranty Changes %
Sterling	98.0	-14.1
U.S Dollar	66.5	-12.0
Canadian Dollar	101.9	-0.5
Austrian Schilling	106.4	+9.5
Belgian Franc	105.6	-6.4
Danish Krone	103.0	-2.0
Deutsche Mark	112.4	+20.2
Swiss Franc	108.4	+17.8
Guilder	109.8	+12.7
French Franc	98.6	-16.0
Lira	97.5	-20.0
Yen	152.4	+85.7

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100)**Rates are forFeb.16.

OTHER CURRENCIES

Feb.17	£	$
Argentina	32.0745-32.2880	18.0600-18.1700
Australia	2.1650-2.1685	1.2215-1.2235
Brazil	1.7670-1.7770	0.9950-1.0000
Finland	7.5595-7.5995	4.2690-4.2710
Greece	270.55-274.95	152.40-154.85
Hong Kong	13.8365-13.8535	7.8000-7.8020
Iran	123.25*	69.10*
Korea(Sth)	1193.10-1202.70	673.40-679.00
Kuwait	0.50895-0.51015	0.28710-0.28740
Luxembourg	68.35-68.45	38.45-38.55
Malaysia	4.8290-4.8510	2.7250-2.7280
Mexico	4120.35-4158.20	2320-2340
N. Zealand	2.8830-2.8880	1.6245-1.6275
Saudi Ar.	6.6535-6.6645	3.7500-3.7510
Singapore	3.4045-3.4125	1.9200-1.9220
S. Af (Cm)	4.3885-4.3965	2.4800-2.4850
S. Af (Fn)	6.9585-7.0980	3.9215-4.0000
Taiwan	48.90-49.15	27.55-27.65
U.A.E.	6.5125-6.5250	3.6720-3.6730

*Selling rate

EURO-CURRENCY INTEREST RATES

Feb.17	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	12¾-12⅝	12¾-12⅝	13⅛-12⅞	13-12⅞	12⅞-12¾	12⅝-12½
US Dollar	9¼-9⅛	9¼-9⅛	9½-9⅜	9⅞-9¾	10-9⅞	10¼-10⅛
Can. Dollar	11⅛-10⅞	11-10¾	11¼-11	11⅝-11⅜	11⅞-11⅝	12-11¾
D. Guilder	6½-6⅜	6½-6⅜	6⅝-6½	6¾-6⅝	6⅞-6¾	7-6⅞
Sw. Franc	5¾-5⅝	5¾-5⅝	5⅞-5¾	5⅞-5¾	5⅞-5¾	6-5⅞
Deutschmark	6⅜-6¼	6⅜-6¼	6⅝-6½	6⅞-6¾	6⅞-6¾	6⅞-6¾
Fr. Franc	8⅞-8⅝	8⅞-8⅝	9⅛-9	9⅜-9¼	9⅝-9½	9⅝-9½
Italian Lire	11-9	11⅛-10⅞	11⅜-11⅛	12⅛-11⅞	12⅜-12⅛	12¾-12½
B. Fr. (Fin)	7⅛-6⅞	7⅜-7⅛	7⅞-7⅝	8⅜-8⅛	8⅜-8⅛	8⅝-8⅜
B. Fr. (Con.)	7⅛-6⅞	7⅜-7⅛	8-7¾	8⅛-7⅞	8¼-8	8⅝-8⅜
Yen	4⅛-4⅛	4⅛-4⅛	4⅜-4¼	4⅝-4½	4⅞-4¾	4⅞-4¾
D. Krone	7⅞-7⅝	7⅞-7⅝	8⅛-7⅞	8⅜-8⅛	8⅝-8⅜	8⅝-8⅜
Asian $Sing	9⅝-9½	9⅝-9½	9⅝-9½	9⅞-9¾	10-9⅞	10⅛-10⅛

Long term Eurodollars: two years 10⅜-10¼ per cent; three years 10⅜-10¼ per cent; four years 10⅛-10 per cent; five years 10⅛-9⅞ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Feb.17	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.776	3.263	223.8	11.11	2.770	3.680	2387	2.114	68.40
$	0.563	1	1.837	126.0	6.256	1.560	2.072	1344	1.190	38.51
DM	0.306	0.544	1	68.59	3.405	0.849	1.128	731.5	0.648	20.96
YEN	4.468	7.936	14.58	1000.	49.64	12.38	16.44	10666	9.446	305.6
F Fr.	0.900	1.599	2.937	201.4	10.	2.493	3.312	2149	1.903	61.57
S Fr.	0.361	0.641	1.178	80.79	4.011	1	1.329	861.7	0.763	24.69
H Fl.	0.272	0.483	0.887	60.82	3.019	0.753	1	648.6	0.574	18.59
Lira	0.419	0.744	1.367	93.76	4.654	1.160	1.542	1000.	0.886	28.66
C $	0.473	0.840	1.544	105.9	5.255	1.310	1.741	1129	1	32.36
B Fr.	1.462	2.596	4.770	327.2	16.24	4.050	5.380	3490	3.091	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

POUND SPOT- FORWARD AGAINST THE POUND

Feb.17	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7685-1.7880	1.7755-1.7765	0.47-0.44cpm	3.07	1.35-1.30pm	2.98
Canada	2.1055-2.1155	2.1130-2.1140	0.30-0.16cpm	1.31	0.66-0.47pm	1.07
Netherlands	3.67¼-3.68¾	3.67½-3.68½	1¾-1⅝cpm	5.50	5¼-5⅛pm	5.71
Belgium	68.10-68.50	68.35-68.45	21-20cpm	3.60	84-76pm	4.68
Denmark	12.64½-12.70¼	12.69-12.70	5⅛-4¾orepm	4.67	14¼-14pm	4.53
Ireland	1.2195-1.2250	1.2230-1.2240	0.55-0.50ppm	5.15	1.50-1.40pm	4.74
W. Germany	3.25¼-3.26½	3.26-3.26½	1⅝-1½pfpm	5.75	5-4¾pm	5.98
Portugal	266.55-268.80	267.20-268.20	49-11cpm	1.34	108-16pm	0.93
Spain	202.60-203.65	202.75-203.05	12-par cpm	0.35	8-6pm	0.14
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Belgian rate is for convertible francs. Financial franc [illegible]. Six-month forward dollar [illegible] 12 month 3.75-3.65cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Feb.17	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc [illegible].

MONEY MARKETS

Liffe looks for base rate cut by June

TRADING WAS quiet in London last week. Fading hopes of a cut in bank base rates, before delivery of the March short sterling contract on Liffe, moved most of the trade into June delivery, where turnover increased to about three times the March level.

There is obviously more opportunity for lower base rates by June, but a level of 87.61 for the June contract indicates a Libor rate of 12.39 per cent at the time of delivery. Libor is at present hovering around 13 per cent, and this may be taking an optimistic view of the inflationary situation, given that the year-on-year rise in January's retail price index was 7.5 per cent, against 6.8 per cent in December.

The market was not completely surprised on Friday at the January inflation figure, which had been the widely forecast in the Press some day's earlier. This led to comments in the City about blunting the impact of bad figures with official leaks of information.

A lack of change in West German key interest rates, at last Thursday's Bundesbank council meeting, was also not a total surprise. The Bundesbank drained liquidity at a securities repurchase agreement tender and also tended to encourage market rates higher by not fixing the rate of the tender. On the other hand the dollar was showing signs of weakening.

UK clearing bank base lending rate 13 per cent from November 25

In New York the Federal Reserve drained liquidity from the banking system at times, leading to suggestions that the Fed has a target for Federal funds of 9⅝ per cent, compared with the present level of around 9⅜ per cent.

MONEY RATES

NEW YORK (4pm) — Treasury Bills and Bonds

Prime rate	11	One month	8.17	Three year	9.33
Broker loan rate	10¾-¼	Two month	8.51	Four year	[illegible]
Fed.funds	[illegible]	Three month	8.76	Five year	[illegible]
Fed.funds at intervention	[illegible]	Six month	9.06	Seven year	[illegible]
		One year	9.25	10 year	[illegible]
		Two year	9.39	30 year	9.05

Feb.17	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Paris	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Zurich	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amsterdam	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tokyo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brussels	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dublin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON MONEY RATES

Feb.17	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Interbank Bid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local Authority Deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local Authority Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Mkt Deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Company Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finance House Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fine Trade Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dollar CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SDR Linked Dep Offer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SDR Linked Dep Bid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU Linked Dep Offer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU Linked Dep Bid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

FT LONDON INTERBANK FIXING

(11.00 a.m. Feb.17)	3 months US dollars		6 months US Dollars	
	bid 9⅞	offer 10	bid 9⅞	offer 10

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

	Feb.17	Feb.10		Feb.17	Feb.10
Bills on offer	[illegible]	[illegible]	Top accepted rate of discount	[illegible]	[illegible]
Total of applications	[illegible]	[illegible]	Average rate of discount	[illegible]	[illegible]
Total allocated	[illegible]	[illegible]	Average yield	[illegible]	[illegible]
Minimum accepted bid	[illegible]	[illegible]	Amount on offer at next tender	[illegible]	[illegible]
Allotment at minimum level	[illegible]	[illegible]			

WEEKLY CHANGE IN WORLD INTEREST RATES

LONDON	Feb.17	change	NEW YORK	Feb.17	change
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of stocks per grouping	Fri Feb 17 1989 US Dollar Index	% Change Since Dec.30 88	Pound Sterling Index	Local Currency Index	Gross Div. Yield	Thu Feb 16 1989 US Dollar Index	Pound Sterling Index	Local Currency Index	Dollar Index 1988/89 High	1988/89 Low	Year ago (approx)
Australia (89)	133.19	-7.8	111.18	108.29	4.95	137.78	115.34	108.68	157.12	91.16	98.51
Austria (18)	97.36	+1.5	81.28	92.82	2.65	96.51	80.79	92.41	100.00	83.72	86.61
Belgium (63)	135.42	+0.2	113.05	129.24	3.99	135.60	113.51	129.91	139.89	99.14	120.05
Canada (125)	134.24	+6.9	112.06	115.68	3.23	134.83	112.87	115.50	137.27	107.06	113.96
Denmark (39)	158.22	+1.0	132.08	153.81	1.92	158.48	132.67	154.76	161.60	111.42	115.68
Finland (26)	145.38	+11.1	121.36	130.28	1.35	144.73	121.16	129.94	147.07	106.78	115.70
France (130)	115.83	+0.7	96.69	113.60	2.86	116.51	97.53	114.50	119.98	72.77	85.70
West Germany (102)	85.55	-2.7	71.42	81.70	2.30	85.67	71.72	82.06	90.40	67.78	74.27
Hong Kong (44)	129.78	+16.1	108.34	129.98	3.68	128.81	107.83	129.00	133.77	84.90	88.72
Ireland (17)	141.30	+7.2	117.96	137.31	3.68	139.23	116.55	135.76	144.25	104.60	108.47
Italy (98)	81.18	-4.6	67.77	81.49	2.48	80.62	67.49	81.10	86.88	62.99	70.13
Japan (456)	198.98	+3.9	166.10	158.48	0.47	197.89	165.66	157.99	198.98	133.61	155.61
Malaysia (36)	157.40	+9.7	131.39	165.28	2.59	157.19	131.59	165.33	159.52	107.83	112.34
Mexico (13)	161.65	-0.1	134.95	411.81	1.24	162.25	135.83	411.56	182.24	90.07	147.80
Netherland (39)	114.20	+1.6	95.33	108.02	4.60	113.65	95.14	107.89	115.04	95.23	100.65
New Zealand (24)	73.07	+8.1	61.00	63.09	6.13	72.97	61.09	63.03	84.05	63.32	69.67
Norway (26)	168.26	+21.1	140.46	152.50	2.05	164.65	137.84	149.68	168.26	98.55	106.53
Singapore (26)	141.54	+13.1	118.15	125.30	2.13	142.13	118.98	125.95	143.62	97.99	103.11
South Africa (60)	123.68	+5.8	103.25	107.07	4.41	124.51	104.23	107.79	139.07	98.26	125.95
Spain (42)	145.33	-2.1	121.32	125.84	3.83	145.30	121.64	126.53	164.47	130.73	135.59
Sweden (35)	151.61	+4.8	126.56	141.17	2.19	150.97	126.38	140.97	151.85	96.92	107.85
Switzerland (57)	77.36	-0.9	64.58	74.80	2.27	77.50	64.88	75.20	86.75	74.13	80.40
United Kingdom (314)	151.53	+12.0	126.49	126.49	4.30	150.52	126.01	126.01	152.54	120.66	125.33
USA (568)	120.80	+6.7	100.84	120.80	3.58	120.09	100.53	120.09	121.90	99.19	106.63
Europe (1006)	119.96	+4.7	100.14	107.92	3.54	119.59	100.12	107.91	120.76	97.01	100.89
Nordic (126)	147.43	+5.6	123.07	134.13	1.99	146.84	122.93	134.03	147.43	98.11	105.99
Pacific Basin (675)	193.41	+3.8	161.45	154.99	0.67	192.56	161.28	154.54	193.41	130.81	150.80
Euro-Pacific (1681)	164.01	+4.1	136.91	136.30	1.52	163.36	136.75	136.01	164.01	120.36	130.85
North America (693)	121.51	+6.7	101.44	120.51	3.56	120.88	101.19	119.83	122.73	99.78	107.02
Europe Ex. UK (692)	100.54	-0.8	83.93	96.40	2.89	100.53	84.16	96.69	102.91	80.27	85.69
Pacific Ex. Japan (219)	126.81	+1.8	105.86	110.97	4.34	128.75	107.79	110.93	137.68	87.51	92.75
World Ex. US (1879)	162.58	+4.2	135.72	135.46	1.60	161.98	135.60	135.18	162.58	120.26	130.24
World Ex. UK (2133)	146.01	+4.3	121.89	130.89	1.97	145.41	121.73	130.48	146.01	111.77	120.69
World Ex. So. Af. (2387)	146.63	+4.9	122.40	130.62	2.18	145.99	122.21	130.20	146.63	113.26	121.05
World Ex. Japan (1991)	121.23	+5.7	101.20	115.77	3.59	120.81	101.14	115.39	122.34	100.00	104.54
The World Index (2447)	146.49	+4.9	122.29	130.46	2.19	145.85	122.10	130.05	146.49	113.37	121.09

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.62 (US $ Index), 114.42 (Pound Sterling) and 123.18 (Local).

CONSTITUENT CHANGES: Deletion: Feb.15: New Town Props. (Hong Kong).Name change: Feb.13 Berisford (S & W) to Berisford Intl. (U.K).

EUROPEAN OPTIONS EXCHANGE

Series		Feb. 89 Vol	Feb. 89 Last	May 89 Vol	May 89 Last	Aug. 89 Vol	Aug. 89 Last	Stock
GOLD C	$390	34	0.10	14	11 A	25	18.50	$380.40
GOLD C	$400	-	-	477	7.50	288	14.90 B	$380.40
GOLD C	$420	-	-	71	3	102	9	$380.40
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

TOTAL VOLUME IN CONTRACTS : 55,300

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	13	City Merchants Bank	13	Mount Credit Corp.	13
Adam & Company	13	Clydesdale Bank	13	Nat. Bk. of Kuwait	13
AAB - Allied Arab Bk	13	Comm. Bk. N.East	13	NatWestminster	13
Allied Irish Bank	13	Co-operative Bank	*13	Northern Bank Ltd	13
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

● Members of British Merchant Banking & Securities Houses Association. * Deposit rate [illegible]

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renun. Date	1988/89 High	1988/89 Low	Stock	Closing Price	+or-	Net Div.	Times Cov'd	Gross Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renun. Date	1988/89 High	1988/89 Low	Stock	Closing Price £	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

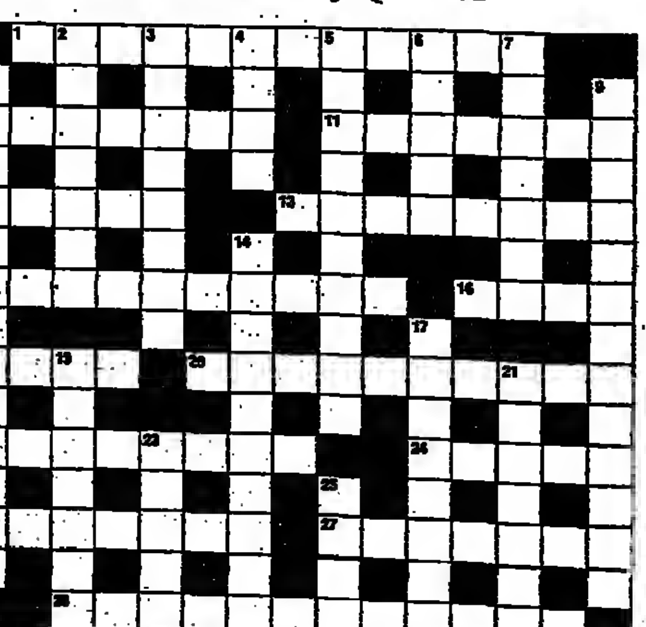
Issue Price p	Amount Paid up	Latest Renun. Date	1988/89 High	1988/89 Low	Stock	Closing Price p	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

JOTTER PAD

CROSSWORD

No.6,865 Set by QUARK



ACROSS

1 Lightheaded driver could be using it! (8,4)
10 Starting to develop the northern climb (7)
11 Completely overcome counter blasts (7)
12 The heart transplant world (6)
13 Island bird's poisonous plant (8)
15 The latest communicator? (4-6)
16 Unworthy sportsman's puffed, we hear (4)
18 Pitch encounter (4)
20 Nasty-oil patch? H'm, having effect on the viewer (10)
22 Be heavier than, to overcome (8)
24 Fabric made channel under back (5)
26 Fruit almost voiced in a party (7)
27 Where, fine burns first and last in a shrub (7)
28 Following the animals, wearing a suitable hat? (12)

DOWN

2 Remove cap for a French society set? (7)
3 His charges are for the field (8)
4 Greek maiden gets thanks for Greek letter (4)
5 One added to score to draw up in New York. That's not relevant (10)
6 Nothing's useless like an egg (5)
7 Bird in a flat spin (7)
8 Country player (13)
9 A star perhaps, has testimonial with money (9-4)
14 Map battered in storm – almost a river (agitated) (10)
17 Plenty of grit required where ships go aground (8)
19 Like a rock idol – hit is smashing (7)
21 Recognition of one in French resort (7)
23 Destroy traces of camera's exposures (5)
25 Father is sailor with a degree (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday March 4.

AUSTRIA

BELGIUM/LUXEMBOURG

DENMARK

FINLAND

FRANCE

FRANCE (continued)

GERMANY

GERMANY (continued)

ITALY (continued)

ITALY

NETHERLANDS

NORWAY

SPAIN

SWEDEN

SWITZERLAND

SOUTH AFRICA

JAPAN

AUSTRALIA (continued)

AUSTRALIA

HONG KONG

SINGAPORE

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) Unavailable. (k) Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. South African prices unavailable Feb.

CANADA

TORONTO

Closing prices February 17

MONTREAL

Closing prices February 17

INDICES

NEW YORK DOW JONES

	Feb 17	Feb 16	Feb 15	Feb 14	1988/89 High	1988/89 Low	Since compilation High	Since compilation Low
♦Industrials	2324.82	2311.43	2303.93	2281.25	2347.14 (7/2/89)	1879.14 (20/1/88)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	88.83	88.80	88.94	89.02	91.25 (3/3/88)	86.12 (4/1/88)	–	–
Transport	1082.79	1079.24	1075.36	1062.10	1087.97 (7/2/89)	737.57 (21/1/88)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	186.46	186.17	186.52	186.05	191.15 (24/1/89)	167.26 (20/4/88)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2339.11 (2326.07) Low 2301.96 (2293.04)

STANDARD AND POOR'S	Feb 17	Feb 16	Feb 15	Feb 14	1988/89 High	1988/89 Low	Since compilation High	Since compilation Low
Composite ‡	296.76	294.81	294.24	291.81	299.63 (7/2/89)	342.63 (20/1/88)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial	342.66	340.45	339.84	336.74	346.41 (7/2/89)	277.86 (20/1/88)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	27.14	26.89	26.80	26.57	27.24 (7/2/89)	21.51 (8/1/88)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	166.45	165.51	165.21	163.94	168.02 (7/2/89)	136.72 (20/1/88)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	325.95	325.15	325.21	322.96	327.23 (8/2/89)	262.76 (12/1/88)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	407.19	405.70	404.17	402.02	409.19 (7/2/89)	331.97 (12/1/88)	455.28 (26/8/87)	54.87 (31/10/72)

	Feb 10	Feb 3	Jan 27	year ago (approx.)
Dow Industrial Div. Yield	3.63	3.45	3.46	3.48

	Feb 15	Feb 8	Feb 1	year ago (approx.)
S & P Industrial div. yield	3.13	3.05	3.05	3.05
S & P Indl. P/E ratio	13.63	13.85	13.79	16.54

TRADING ACTIVITY † Volume

Millions	Feb 17	Feb 16	Feb 15
New York	159.520	177.450	154.220
Amex	11.892	12.010	10.860
OTC	114.149	149.254	123.178

NEW YORK	Feb 17	Feb 16	Feb 15
Issues Traded	1,951	1,999	1,951
Rises	953	805	888
Falls	497	599	550
Unchanged	501	535	513
New Highs	58	61	55
New Lows	13	12	20

CANADA

TORONTO	Feb 17	Feb 16	Feb 15	Feb 14	1988/89 High	1988/89 Low
Metals & Minerals	3441.7	3414.6	3397.4	3419.7	3564.9 (6/2/89)	2238.7 (8/2/88)
Composite	3610.8	3606.7	3609.9	3629.7	3696.1 (8/2/89)	2977.9 (8/2/88)
MONTREAL Portfolio	1797.73	1793.31	1794.26	1791.42	1850.44 (8/2/89)	1305.06 (27/1/88)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Navistar	2,750,400	5⅞	– ⅛	Fleming	1,840,300	31⅝	.....
Niag Mohawk	2,644,400	12	.....	Exxon	1,477,100	44⅜	– ⅛
Kan-Cy Pwr	2,129,300	30⅛	+ ⅛	AT&T	1,441,400	31½	+ ⅛
Union Carbide	1,982,600	32	– ⅛	General Electric	1,416,800	46⅞	+ ⅞
Church Chl	1,879,400	10⅛	.....	Eastman Kodak	1,381,800	48⅝	+ 1

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Feb. 17	Feb. 16	Feb. 15	Feb. 14	1988/89 High	1988/89 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1481.1	1451.0	1479.0	1485.6	1657.8 (9/8/88)	1170.7 (30/2/88)
All Mining (1/1/80)	655.0	654.6	671.3	673.5	847.8 (9/8/88)	532.4 (10/2/88)
AUSTRIA						
Credit Aktien (30/12/84)	240.57	239.33	239.22	239.16	240.57 (17/2/89)	163.98 (11/1/88)
BELGIUM						
Brussels SE (1/1/84)	5767.43	5789.14	5799.66	5821.33	5834.01 (10/2/89)	3608.35 (4/1/88)
DENMARK						
Copenhagen SE (3/1/83)	287.90	289.50	290.25	291.04	291.83 (10/2/89)	180.68 (4/1/88)
FINLAND						
Unitas General (1975)	782.6	782.4	782.0	782.4	782.6 (17/2/89)	530.6 (15/1/88)
FRANCE						
CAC General (31/12/82)	440.3	440.4	442.8	447.1	457.1 (3/2/89)	251.3 (29/1/88)
Ind. Tendance (30/12/88)	103.0	103.6	102.9	104.3	108.1 (3/2/89)	100.0 (1/1/89)
GERMANY						
FAZ Aktien (31/12/58)	556.32	557.52	558.11	561.98	569.27 (8/2/89)	396.40 (29/1/88)
Commerzbank (1/12/53)	1660.3	1663.5	1662.5	1678.4	1705.6 (5/1/89)	1207.9 (29/1/88)
DAX (30/12/87)	1315.09	1317.91	1317.32	1331.47	1371.10 (5/1/89)	931.18 (28/1/88)
HONG KONG						
Hang Seng Bank (31/7/64)	3106.25	3082.14	3100.87	3099.97	3209.96 (9/2/89)	2223.56 (8/2/88)
ITALY						
Banca Com. Ital. (1972)	586.22	583.12	579.45	578.72	615.89 (17/1/89)	423.91 (9/2/88)
JAPAN						
Nikkei (16/5/49)	32173.39	32083.58	32149.48	31982.8	32173.39 (17/2/89)	21217.04 (4/1/88)
Tokyo SE (Topix) (4/1/68)	2473.33	2468.19	2475.71	2473.46	2490.07 (8/2/89)	1690.44 (4/1/88)
NETHERLANDS						
ANP-CBS General (1970)	303.7	303.7	302.4	305.3	310.7 (8/2/89)	205.7 (4/1/88)
ANP-CBS Industrial (1970)	265.5	264.9	263.6	266.1	272.7 (8/2/89)	157.9 (11/1/88)
NORWAY						
Oslo SE (4/1/83)	560.94	553.84	539.77	537.91	560.94 (17/2/89)	327.78 (28/1/88)
SINGAPORE						
Straits Times Ind. (30/12/66)	1129.93	1129.83	1122.56	1120.17	1177.87 (8/8/88)	833.60 (4/1/88)
SOUTH AFRICA						
JSE Gold (28/9/78)	(u)	1303.0	1291.0	1309.0	1451.0 (7/7/88)	1154.0 (4/5/88)
JSE Industrial (28/9/78)	(u)	2200.0	2186.0	2185.0	2246.0 (9/2/89)	1387.0 (12/2/88)
SPAIN						
Madrid SE (30/12/85)	273.20	274.35	274.90	275.61	301.63 (15/6/88)	225.50 (4/1/88)
SWEDEN						
Jacobson & P. (31/12/56)	3667.2	3648.7	3634.5	3642.6	3667.2 (17/2/89)	2148.5 (4/1/88)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	646.8	647.9	(u)	647.6	647.9 (16/2/89)	466.6 (13/1/88)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	517.5	518.9	513.8	518.9 (15/2/89)	401.0 (21/1/88)

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia, All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

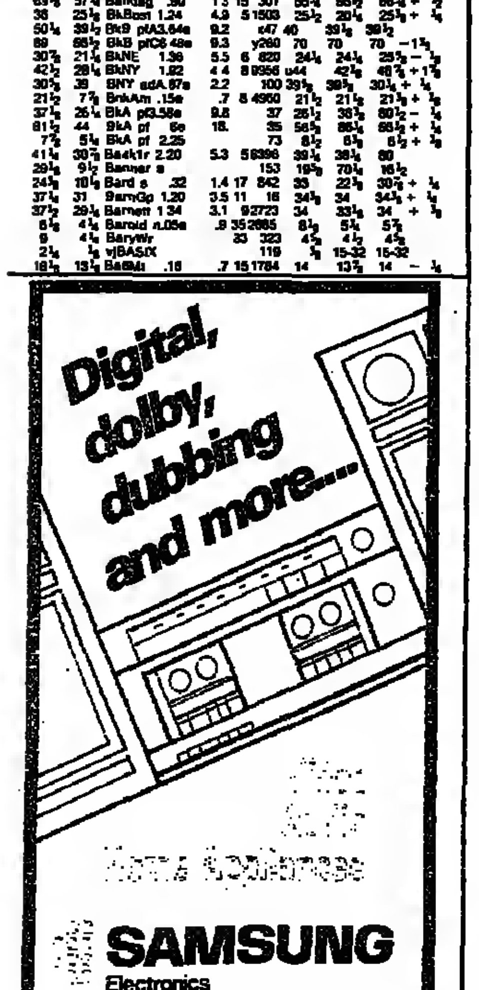
Friday 17 February 1988

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	160.9m	970	+30	Mitsui Eng & Shipbldg	78.1m	880	+45
NKK	106.2m	1,030	+40	Kobe Steel	47.8m	865	+35
Mitsubishi Heavy Ind	94.6m	1,200	+40	Shimizu	45.4m	2,100	+118
Sumitomo Metal	89.2m	848	+38	Toshiba	37.6m	1,180	+30
Hitachi Zosen	83.5m	618	+85	Nippon Yusen	35.9m	981	-6

4pm prices February 17

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		- A - A - A -								
29⅝	19¾	AAR	.44	1.7	18	386	26½	26¼	26¼	
10½	8⅝	ACM n	1.01	11.		48	9	8⅞	9⅞	- ⅛
12½	10¼	ACMIn	1.26a	12.		491	11	10⅞	10⅞	
10⅛	8½	ACM M n	1.01	11.		167	9¼	9⅛	9⅛	- ⅛
13⅛	10⅝	ACM Sc	1.26	12.		z1236	10¼	10⅛	10⅛	- ⅛
10½	8½	ACMSp n	.75e	8.6		311	8⅞	8¾	8¾	- ⅛
5⅛	2⅝	AMCA	.12a	2.0		15	4⅛	4	4⅛	+ ⅛
6¼	3⅝	AM Ind				734	5⅝	5¼	5¼	
23⅛	18⅛	AM Int pf	2	8.7		19	23	22⅞	22⅞	- ¼
62¼	35¼	AMR			8	3264	60⅝	60	60⅛	+ ¼
26¾	25	ANR pf	2.67	11.		1001	25⅝	25¼	25⅝	- ⅛
9½	5	ARX				65	5¾	5⅛	5⅛	
48¾	35¾	ASA	3a	7.6		916	39¾	39¼	39⅝	
20¾	14¼	AVX	.24	1.3	9	65	19	17⅞	19	+ ⅛
52⅛	42⅞	AbtLab	1.20	2.3	19	9167	51¼	50¾	51¼	+ 1¼
29¾	15⅝	AbtBSt g	1			38	17⅞	17½	17⅞	
13⅞	7½	AcmeC	.40	3.5		161	11½	11¼	11½	+ ⅛
9⅞	5⅞	AcmeE	.32b	5.1	22	14	6¼	6¼	6¼	- ⅛
29½	18¾	Acu4			24	373	29¼	27¾	29⅛	+ ¼
17	14½	AdaEx	1.82e	12.		106	15	14⅞	14⅞	- ⅛
16⅞	7⅛	AMD			78	1775	9¼	8⅝	8⅝	
43½	28¾	AMD pf	3	9.3		59	32¼	32⅛	32¼	+ ⅛
8½	5⅞	Adobe				133	7⅞	7¼	7⅛	- ¼
21¾	20	Adob pf	2.40	12.		28	20⅝	20½	20½	- ⅛
9¾	5⅞	Advest	.12	1.5	17	47	8¼	8⅛	8¼	
52½	39½	AetnLf	2.76	5.4	9	1287	50⅞	50½	50⅞	+ ⅛
44½	24	AflPb s	.32		5	799	40¼	39⅞	40¼	+ ⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]



Continued on page 33

كما في الأصل

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices February 17

OVER-THE-COUNTER

Nasdaq national market, 4pm prices February 17

The Business Column

In pursuit of quality for the home

Three of the world's biggest kitchen appliance makers have entered the European market since Domotechnica, Cologne's annual kitchen appliance exhibition, was held in 1988. All three came from the US – Whirlpool first when it fixed its white goods marriage with Philips of the Netherlands. Then Maytag took over Hoover, and last month General Electric linked with GEC in the UK.

Accordingly, when Domotechnica came round again last week, Bill Maeyer, head of Whirlpool's international business, and Dave Whitwam, the parent's president, patrolled the ranks of wall-eyed washers on full alert.

Most apparent was clear evidence that the chronic effects of years of over-capacity in the European industry were at last being dissipated. Everyone was talking, showing and selling quality, and boasting shrinking call-out rates.

For 15 years or more, most European manufacturers' obsession with churning out volume at any price had trapped them in a vicious circle. With their margins pared to the minimum, markets saturated and innovation non-existent, it took them years to see that improved quality was the only way to break the circle.

The promise of durability

Since GEC's Hotpoint made the break about four years ago, and raised its laundry market share in the UK from 20 to 40 per cent, pushing up prices as it went, others have attempted to follow. They have come to appreciate that consumers can be persuaded to pay a premium for quality – which may not be immediately obvious, or even appreciated in the short term.

Maeyer has decided that after years of competing with one another for the same mass-market segment, his two main brands, Philips and Bauknecht, are now to operate on separate planes, with Bauknecht covering the premium-priced, top-quality ground. Merloni Elettrodomestici of Italy last week announced a similar strategy in the UK, positioning its Indesit brand in the value-for-money market and Ariston at the top end.

This approach also has risks, in that a product which promises attributes like durability and performance is not going to generate many repeat sales if it fails to deliver.

There is also the possibility that upgrading might eventually lead the industry into yet another vicious circle – like the one which afflicts the US industry. There, well-engineered washing machines run happily for 15 years or more, compared with the 10-year life generally attributed to European machines. As a result, the US market's fortunes revolve around a lengthening replacement cycle and the ups and downs of the housebuilding industry, which sells homes with fully fitted kitchens, and accounts for some 25 per cent of sales.

But Europe is a long way from that. While the US appliance market this year is expected to do no more than match last year's performance, when sales fell 3 per cent (and Whirlpool's profits dropped by 50 per cent), total sales in Europe will rise a further 5 per cent. Over the next decade, Whitwam forecasts, growth in Europe will advance at double the rate in North America.

All the more reason, he says, for Whirlpool and its competitiors to play an increasing role in the transatlantic business, and step up their input of quality engineering into their European partners and acquisitions.

All the more reason for Japanese companies, too, with quality and technology as their main selling points, to take an interest. They have failed to make progress in the US; Whitwam believes they are certain to try Europe next. As a result, quality assessments based on US standards will soon have to be modified to allow for Japanese criteria, making still greater demands on development engineers and designers.

There are still plenty of takeover, merger and partnership targets available in Europe, but ability to pay counts for relatively little. "Top quality," Whitwam says, "That's the real price of entry to this industry."

Christopher Parkes

THE MONDAY INTERVIEW

Fighter who uses more than pure steel

Roderick Oram talks to Lynn Williams, the president of the United Steelworkers of America

By any measure the 1980s have been a terrible time for US unions. Battered by hostile political and economic forces, millions of their members have lost jobs or been forced to accept sharply lower living standards.

Yet, "despite all this we have a very vigorous labour movement in the US, united by these circumstances in a new way," argues Lynn Williams, president of the United Steelworkers of America.

This strength came into its own last year, when the unions won a victory which – says Mr Williams – showed that the labour movement could still count on public support. This was the passing of a law requiring employers to give advance notice of plant closings. Even though President Reagan tried to veto the law, unions were able to rally sufficient support in Congress to win final approval.

"I believe there is growing concern about declining living standards, low wage levels, lack of job security, difficult and dangerous work environments, training and education, and other issues," says Mr Williams. "There's a sensitivity to the needs of people."

"We're more necessary in today's society than ever, both in the traditional sense of providing countervailing force in a world of international economic power but also in the constructive role of helping America maintain its industrial leadership."

Mr Williams, trim and well-tailored, looks much younger than his 64 years. He was born in Canada, and spent much of his career there, working for the union's Canadian wing. That gives his comments on the US industrial scene particular force.

Today, only 17 per cent of the US workforce is unionised, in contrast to 23 per cent in 1980. The decline in numbers, according to Mr Williams, is "a measure of the destruction of America's industrial base." Many employers believe that highly paid and intransigent union members contributed to industry's problems. Mr Williams argues, however, that employers and governments lost the opportunity for a more productive, co-operative environment by turning strongly anti-union.

He cites President Reagan's firing of air traffic controllers early in his administration as "a signal to employers that it was all right to engage in labour bashing." The workers' right to organise themselves into unions "was denied time and again."

In addition, he believes that throughout the 1980s, employers and government "directed a great deal of hostility towards workers, forever saying that in one way or another they were to blame for the country's economic difficulties."

This anti-union environment made it easier for companies to close plants or sack workers. According to the Bureau of Labor Statistics, nearly 10m Americans lost their jobs between 1983 and 1988. Seven out of 10 found new jobs but a third of them took pay cuts of at least 20 per cent.

No sector suffered greater hardships than steel. However, what the Steelworkers learnt from their experiences of labour-management relations, worker ownership, profit sharing, economics and politics, has greatly enhanced their influence in the national labour movement.

PERSONAL FILE

- **1924** Born Springfield, Ontario, Canada
- **1944** BA Economics, McMaster University, Ontario
- **1944** Community organisar, Canadian Labor Congress
- **1947** Joins United Steelworkers in Toronto
- **1973** *Elected head of union's Ontario and western Canada district*
- **1983** Made interim president
- **1985** Elected president

While Mr Williams's analysis of the future of union activity is finding growing support among other union leaders, he still has to woo many traditionalists away from a narrow preoccupation with pay. "Lynn takes a long-run view that's rarely seen in US unions," says Mr Ed Ayoub, a retired chief economist of the Steelworkers's union. "He thinks in long social trends, linking them with collective bargaining."

"He has been, more than any other union leader, at the front of promoting a more co-operative environment," says Mr Dick Coffea, National Steel's head of labour resources.

Unions can only achieve broader goals, Mr Williams believes, if they have a sufficiently large membership base to pay, for example, for specialised research functions and to lobby effectively. "I never dreamed years ago that we'd have our own investment banker."

Maintaining numbers has been particularly difficult for his own union. Its total membership (including workers in other industries) dropped from a peak of 1.5m in 1971 to a low of 610,000 in 1986; the number of members working in the steel industry fell from 510,000 to 116,300. Diversifying further into other industries such as health care and furniture making, the union has nudged up its rolls to 700,000 today. It now has 135,900 members in steel, only one-fifth of the membership, against a peak of one-third in 1971.

Just as steel companies like USX have diversified to reduce their financial dependence on the industry, so has the Steelworkers' union. Thus, upholsterers and steelworkers all pay into a common strike fund and help fight each other's battles. The union tries to diversify logically. For example, Mr Williams believes it would be more effective for a steel town's hospital workers to join the under-used Steelworkers' local office rather than set up from scratch.

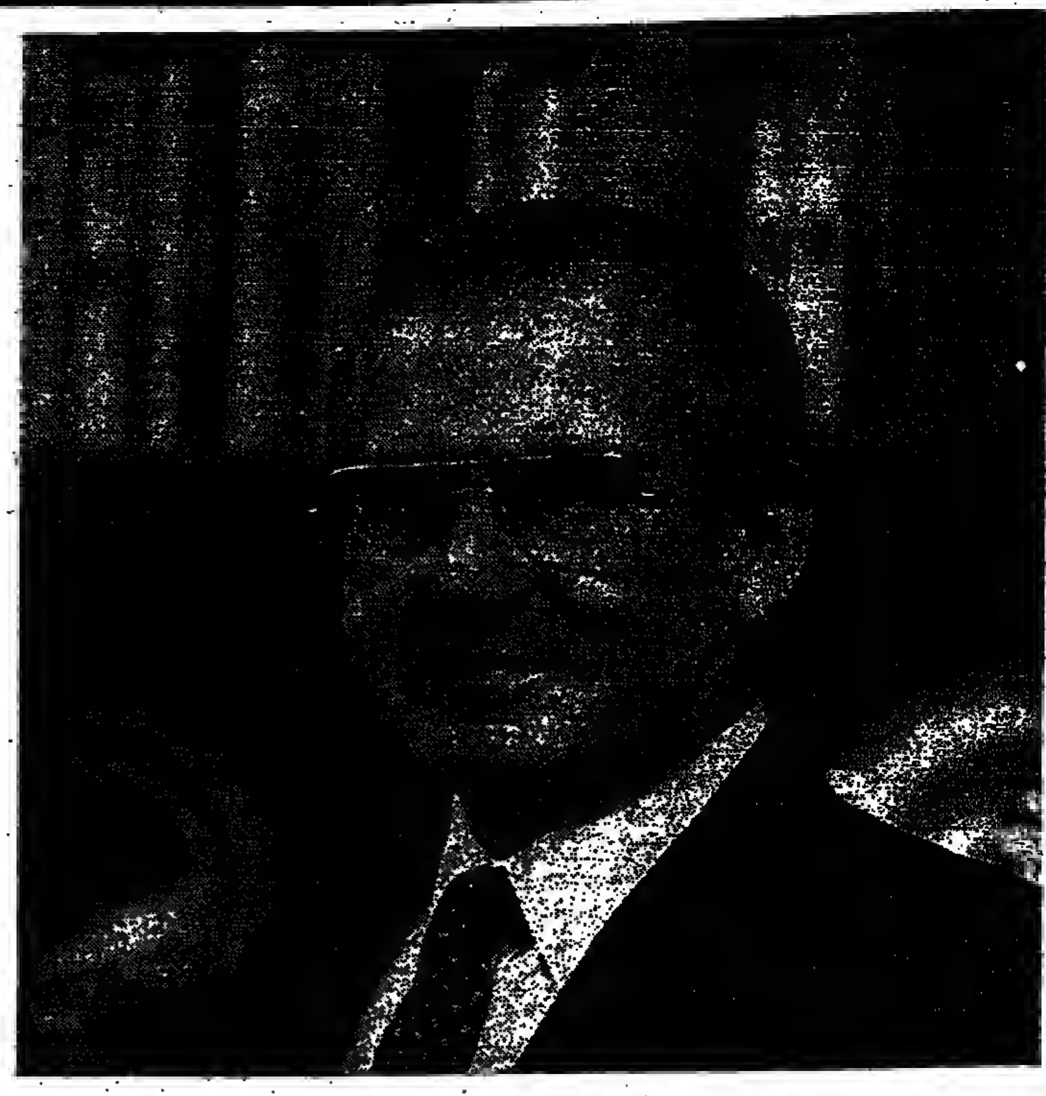
Mr Williams himself is a symbol of his union's breadth – neither a steelman nor an American. The son of a Methodist minister, he was born and raised in Canada. University educated, he has been a career-long union staffer apart from a brief early spell making water heaters. He ended up as president of the Steelworkers' Ontario and western Canadian district before being elected tha union's secretary at its Pittsburgh headquarters in 1977.

He assumed the presidency in 1983 on the death of Mr Lloyd McBride and shortly afterwards won a fiercely fought referendum to complete the term. No one opposed him when he ran for his first full term in 1985; he faces re-election this year. He commands loyalty and respect from his members for his negotiating skills and vision. "He's not going to get a run-around from some management sharpie," says one.

"You don't have to be a steelworker to lead us," says Mr Willie Ross, president of the union's local 65 at USX's Chicago South Works. "He's done a tremendous job considering the obstacles."

Many reminders of the radical changes to his industry lie outside Mr Williams' Pittsburgh office. Once the banks of the Monongahela river were lined with mills which made the city rich. Most have shut down or been torn down over the past decade, forcing Pittsburgh and its steelworkers to learn new ways of earning their keep.

During the 1980s, the US steel industry ran up some $12bn of losses and cut capacity by roughly 50 per cent, before it began making profits again in 1987. Productivity is now among the highest in the world at about five man/hours per metric tonne of raw steel. Some steel executives acknowledge that the union played a pivotal role in turning the industry round – for example, by the agreement to cut wages in exchange for a greater say in shopfloor management.



'I never dreamed years ago that we'd have our own investment banker'

This was achieved when Wheeling-Pittsburgh filed for bankruptcy. The union hired Lazard Freres, the investment bank, and Arthur Young, the accountants, to help it formulate its position. It persuaded shareholders to dump senior management and elect union representatives to the board in exchange for wage cuts.

Throughout the industry, union members have suffered more than their employers. Four out of five Steelworkers lost their jobs. The survivors made pay concessions that accelerated the slide in their earnings from 180 per cent of the average industrial wage in the mid-1970s, to near parity today. And whereas the United Autoworkers pushed up their pay between 1982 and 1988 by 24 per cent to an average $16.09 an hour, Steelworkers are earning $14.76 an hour, up only 2.5 per cent.

The problems grow no smaller. Most labour contracts expire later this year (except for those with USX, tha nation's largest steelmaker). Negotiations for new pacts will involve some tricky issues. Will the industry share some of last year's $2bn net profits with the workers? Will managers yield more power to the shopfloor now survival is no longer in question?

Fortunately, union-management relations are reasonably constructive in most companies, with the exception of USX. It broke from its competitors in the 1986 negotiations, holding out for larger pay cuts, big concessions on contracting out of work and other issues. The result was a six-month lockout, the longest, most bitter shutdown in USX's history.

There is now far more co-operation on the USX shopfloor than management rhetoric would imply. But many people in the union will never forget the fighting words, indicative of the bad old anthoritarian days, which a senior USX official used on the eve of the lockout.

He told the New York Times: "We are not going to be marched into the gas chambers hy union insistence on an uneconomic contract. If we are forced to fight we will take the stance of the residents of the Warsaw ghetto and fight while we still have resources left to fight with."

Regulation or public choice

A.H.HERMANN

The High Court had no hesitation whatsoever on January 17 in ordering Lord Young, the Secretary of State for Trade and Industry, to refer the takeover of the House of Fraser by the Al Fayed brothers to the Monopolies and Mergers Commission. Nor did the Court of Appeal hesitate in saying, three days later, thet the High Court was entirely wrong. What can be said of such contradictions?

When considering an appeal, the House of Lords will, at the very least, be called upon to redefine the scope and the limits of judicial review of ministerial decisions. But the case also raises the question of regulation in the spirit of the welfare state, as opposed to the "public choice" legal theories the Government prefers.

The Law Lords will find it impossible to avoid the issue of ministerial discretion. The High Court stayed within the definitions established by precedents: that in exercising his discretion the minister cannot ignore the aims of the statute. Tha Court of Appeal reversed this decision, emphasising the minister's free discretion to refer or not to refer a bid to the Monopolies Commission. It has been always accepted that the task of the judge is not to second-guess the administrator, but only to see that his decision was not one which "no reasonable man would make."

It is obvious that the requirement of "reasonableness" may get dangerously close to supplanting the administrator's or minister's view by that of the judge. The High Court placed great emphasis on Lord Young's failure to give reasons for his decision. This requirement follows from the fact that it is impossible to apply the yardstick of reasonableness to a decision without knowing how it was arrived at. It will be extremely difficult for the Law Lords not to insist that the minister give reasons for his decision; but they are not likely to approve the substitution of a judge's decision for that of a minister.

The Law Lords might also have to deal with the issue of discrimination. Lonrho, the applicant for judicial review of the non-reference, feels discriminated against. Its earlier bid for House of Fraser had been referred to the Monopolies Commission. Even though it obtained a favourable recommendation from the Commission, its takeover attempt was frustrated by the delay caused by the investigation. The subsequent bid by the Al Fayeds was not referred.

The general rule, in the UK and in most other jurisdictions, is that only those persons whose rights or obligations are affected by an administrative decision can ask for judicial review. Lonrho obviously has a business interest in the matter; the High Court held that this was sufficient to justify its application for review. This is not entirely convincing, because Lonrho has no rights which could be affected by the non-reference. The statute provides for a reference to determine whether the takeover would be against the public interest, not whether it would be in the public interest that someone else should take over the target company.

Another interesting, though purely hypothetical, question is whether a shareholder who did not accept the offer of the bidder (most shareholders did accept in the the House of Fraser case), would be entitled to ask for judicial review. The grounds would be that the decision not to refer led to the burdening of the company with unnecessary debt, consequent on a leveraged takeover, and thus diminished the intrinsic value of his shares. Only a few years ago one would have been tempted to reject such an idea out of hand, on the ground that public interest is a concept different from and wider than the interest of the shareholders. But the Financial Services Act made the protection of investors a matter of public concern and the proposition can no longer be dismissed so easily.

Behind the Government's approach to the sort of problem at stake in this lawsuit is the "public choice" argument, which has had great influence in the US over the past generation. Regulation, say members of this school, leaves decisions in the hands of politicians and hureaucrats. They will speak of public interest and public good, but will pursue their party political, group or individual interests. Decision-making, says this school of thought, should be transferred from those with an eye on re-election or bureaucratic empire building to those who have a direct interest in the issue. In the case of House of Fraser, public choice means leaving the decision to the shareholders and not referring it to the Monopolies Commission.

The public choice theorists claim that it is better for the puhlic to have an "exit" from a situation than a "voice" in its regulation. This may work well for shareholders who can exit by selling their shares; it may not work so well in other cases, such as that of householders who may be prevented by jobs or family ties from moving away from a soon-to-be-constructed airport. Public choice theorists also want constitutional constraints to protect minorities against majorities – bills of human and economic rights, as well as budget limits on local government, for example. This does not sit well with the poor view some members of this school take of administrative law and judicial review. The Law Commission was stopped hy the Government when it wanted to work on a code of administrative law; and parliamentary draftsmen are instructed to eliminate from bills opportunities for judicial review.

The strong may do without the protection of the law better tban the weak. This alone makes desirable a well-ordered judicial review of administrative decisions. The House of Fraser case provides a great opportunity for the Law Lords to clarify these rules.